

Gareth Dale, *Between State Capitalism and Globalisation: The Collapse of the East German Economy* (Peter Lang, 2004)

This is a final draft. It contains typographical and other minor errors.

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Preface

The origins of this book go back to the 1980s, in particular to a series of visits to, followed by periods of residence in, both the German Democratic Republic and West Berlin. Living in and between two such different societies focuses one's thoughts on the contrasts, whether in terms of the lifestyle and 'national character' of the people, or the structures of economy and polity. In the East, one felt that this was a society that, in material terms, lagged Western Europe by five or fifteen years. Roads were more likely to be empty, and cobbled. Cars were fewer, and more basic in their design. Some farmers were still using horse-drawn carts. Televisions were usually black and white, and personal computers the preserve of enthusiasts only. In terms of political structures, the suppression of public debate was, of course, most striking. So too were some of the features of a 'mobilised society'; hardly had I taken up my teaching post at a university, for example, than my students were called away by the 'Free German Youth' organisation to assist farmers bring in the harvest. In terms of ideology, differences to prevailing views in the West were observable in the media and in the streets, whether in the shape of propaganda banners or in their very names, evocative of the Communist pantheon or simply of industry ('Street of the Workers,' 'Aluminium Street,' 'Technicians Street').

Yet in many respects the similarities between the two systems were, if not more eye-catching, then certainly more important. As I crossed the Wall to visit family or friends in West Berlin I was aware that the economic and cultural gap was no greater than that experienced by, for example, an inhabitant of San Diego visiting her family in Tijuana, or a Palestinian refugee in Gaza visiting Israel to do the same. Thus, in the East, my colleagues and I would go to work each day, to a work regime that, although a touch more 'Prussian' than that which I personally had known in the West, was in central respects identical. We would follow the curriculum, carry out instructions from our superordinates, collect our wages each week and proceed to spend them in shops and on leisure activities, depositing any remainder in our savings accounts. The question that arose, for me, was whether these similarities indicated the presence of anything. If anything the differences in everyday life between the two systems were more pronounced. Were these differences

In 1989 civil liberties were won by a mass movement, the Berlin Wall came down, and market reforms were introduced, followed by currency union and then unification with the Federal Republic of Germany (FRG). Public political debate was now tolerated and the 'mass organisations' dwindled and died. The streets, now with different names, grew busier and the price of colour televisions fell. At work, we could join an independent trade union but also faced the likelihood of unemployment, and in these respects the work regime changed. Our wages, moreover, were in Deutschmarks, they could be spent in the West, and the savings bank was now owned by the Deutsche Bank. However, in fundamental respects we continued

as before: attending work each day, operating within a similar hierarchy of command, collecting and spending our wages, and so forth.

The original questions that were to lead, ultimately, to this book arose from out of these experiences: How can one account for the similarities and differences to its Western twin? In particular, what sort of economy was that of the German Democratic Republic (GDR) and, by extension, those of the Eastern bloc? What made them tick? What explains their emergence, growth and demise? And above all: what exactly changed in 1989-90? In addressing them, three main lines of enquiry were pursued. One was to study the 'political economy of Communism.' An exploration of this takes up the first two chapters of this book. The second was to study the economic and political history of the GDR, a thread that is pursued in chapters three to eight. Thirdly, questions related to the demise of the East German economy in the 1980s and in particular to its collapse in 1989 led me to back to Berlin in order to research in the archives of the old regime and to conduct interviews with former functionaries. The findings from this research are concentrated in chapters seven and eight. In addition, a final chapter analyses the eastern German economy after unification, enabling the question of 'what exactly changed in 1989-90' to be viewed in a new light.

Introduction

In April 1989 something of a publishing sensation occurred in Germany. The first major work by an East German dissident since Rudolf Bahro's *The Alternative in Eastern Europe* was published in the West, to widespread acclaim. Its author, Rolf Henrich, had been a functionary of the Socialist Unity Party (SED), like Bahro before him, but had grown disaffected with the 'tutelary state' over which his party presided. Being an essay of considerable intellectual merit, the book received a good deal of attention, and this was amplified when Henrich was expelled from the SED and then when he became a co-founder of the 'Citizens' Movement' organisation New Forum in the late summer of 1989. In many respects Henrich's *The Tutelary State* was a sign of its times. Inspired by the recent reforms in Russia, it called for market socialism, involving the transference of the means of production to 'socialist entrepreneurs.' Unlike the works of most former dissidents, it did not diagnose the GDR as a flawed but 'actually existing' prototype of a future socialist society. Henrich's emphasis was, as the book's subtitle indicates, squarely on the 'failure of real existing socialism,' a failure that largely stemmed from the imposition by the Soviets of 'tutelary' political and juridical institutions and of despotic economic structures of Asiatic provenance upon Germany's 'natural' institutions of private property and market economy.

The Tutelary State did not only symbolise a sea-change within dissident thinking in East Germany. It also represented a growing literature that interpreted the demise of the Soviet-bloc in terms of their inbuilt resistance to 'modernisation.' Modernisation theory (partly in the guise of 'globalisation theory') was enjoying a renaissance in the 1980s, and flourished following the collapse of the Soviet bloc. As the American sociologist Jeffrey Alexander reflected in the aftermath of that transformation, the world was witnessing a process very close to Talcott Parsons's stipulation that 'the great civilizations of the world would converge towards the institutional and cultural configurations of Western society.'¹ Applied to East Germany, if modernity is interpreted as a composite of market economy, social mobility, individualism, the rule of law, and democratisation, all of which are manifestations of an underlying tendency to the differentiation of social institutions, this would suggest that the country collapsed having only barely reached the 'threshold of modernity,' to borrow a phrase of the East German social scientist (and Henrich's former comrade) Rolf Reißig. For Reißig, the Western framework enabled the 'essential' and 'dynamic' components of modernity to flourish: self-interest, the market, money, gain and the rule of law. East Germany, by contrast, found itself saddled with social structures that had been formed for entirely different socio-economic objectives – the modernisation and industrialisation of a backward country.² At around the same time as Henrich and Reißig were penning these analyses, a similar thesis, albeit grounded explicitly in modernisation theory, was adumbrated by the sociologist Sigrid Meuschel. Socialism, for Meuschel, by centralising 'economic, political and other societal resources' effectively destroyed 'the relative independence of class-and interest-groups, parties and associations.' In addition 'autonomous institutions and regulatory mechanisms

¹ Alexander, 1995.

² Reißig, 1992, p. 48. For a similar argument see Henrich, 1989; also Glaessner, 1991, 1992; Reißig and Glaessner, eds, 1991.

such as the market and law, the public sphere and democracy' were dismantled. The outcome was not the withering away of the state, as Marxism would have it, but rather 'the withering away of society.'³ Under the sclerotic supervision of the SED, civil society remained 'undifferentiated,' whether in terms of property relations, income or achievement. Autonomous initiative could not thrive, and the economy ground to a halt.

The image presented by these and similar analyses is of the GDR as a modernisation deviant and economic failure – a putt-putting fibreglass Trabant driven by an ideologically possessed driver who, giving nary a thought for passengers or passers-by, steers off the main road of modernisation and onto a mud track. Having followed an aberrant modernisation path and failed, 1989 witnessed East Germany being hoisted back on to a more natural and solid road. The 'Wende' (turnaround) of that year can be seen, in Jürgen Habermas's phrase, as a 'revolution of recuperation.' For Habermas, as for Reißig, 1989 represented the GDR's 'reconnection to modernity,'⁴ it enabled the country to 'catch up' through the reintroduction of modern institutions, notably the constitutional state, parliamentary democracy and the market. The process of 'reconnection' was not always smooth, but the economic and social problems that arose could be located in the difficult circumstances of transition. An apt image for this has been penned by the British scholar Mike Dennis, who writes that the eastern part of Germany 'has been undergoing the traumatic shock of the early stage of modernization along the capitalist autobahn.'⁵

The concept of modernisation is a slippery one at the best of times. It can be used in a narrow sense as a synonym for the differentiation of economics and politics and of government from the judiciary. More commonly it refers to the transition from 'traditional' forms of social organisation, involving the subjection of economic processes to the norms of 'instrumental rationality' and their 'disembedding' from local, personalised and particularistic structures such as those based upon kinship. According to this latter definition, the USSR was always a 'modern' society. For Parsons himself, it was one of the world's most 'developed' modern societies.⁶ As to the GDR, in certain respects, as Martin Kohli writes, it could be described as 'radically modern,' given that 'the Stalinist project was bent on destroying not only bourgeois but traditionalist, pre-bourgeois society, and on mobilising the population in the service of a future-oriented ideology.'⁷ Science and technology were applied systematically to production processes but were positively lauded, and R&D comprised a very high proportion of the workforce. The labour process, meanwhile, was subjected rigorously to techniques of 'scientific management,' notably of the Taylorist kind. The GDR witnessed rapid post-war reconstruction after 1945, while previous 'modernising' trends continued, including industrialisation, proletarianisation and urbanisation. The social significance of the family waned, as young people were integrated into 'rationalised' institutions of education, training and the military. Social and occupational mobility were, during the GDR's initial decades at least, high, and the long-term trend towards secularisation continued.⁸

3 Meuschel, 1990, 1992. This translation is borrowed from Ross, 2002, p. 47.

4 Habermas, 1990; Reißig, 1992.

5 Dennis, 1993.

6 Parsons, 1966, p. 3.

7 Kohli, 1994, p. 35.

8 This summary draws in part upon Kohli, 1994, pp. 52–3.

In terms of economic organisation, moreover, the GDR continued previous trends. Already during the First World War Wilhelmine Germany had pioneered forms of state capitalism. In the 1920s varieties of corporatism were sponsored by industrialists, by the post-war SPD government and by the trade union federation. Under the Nazis, state-led industrialisation was the order of the day. 'Inspired in part by the Soviet example,' writes Mark Mazower, the German state 'undertook a massive scheme of capital investment, building up the most powerful military-industrial complex in Europe.'⁹ Market mechanisms were not merely complemented but usurped by authoritative allocation. Four-year planning was introduced and a specialised planning bureaucracy established.¹⁰

Étatiste phenomena of this sort were not only present in Germany. The inter-war period as a whole witnessed a global shift towards autarky and étatisme; it was an era during which ideologies of economic nationalism and state intervention flourished. For many observers at the time, whether they looked at the corporatism of Mussolini's Italy in the 1930s or Roosevelt's USA in the 1940s, it seemed that the dominant trend was for markets to be subordinated to states. In the aftermath of World War Two, despite the vanquishing of fascism and the reconstitution of a liberal world order, Keynesian and corporatist strategies continued to shape the economies of the Western world. The principle of state intervention was permitted by, and in key respects embedded within, the Bretton Woods settlement that was to become the institutional cornerstone of the capitalist world economy. During the post-war boom that followed, high levels of direct state ownership and control could be found in the advanced industrialised countries as in the developing countries mentioned above. In Italy in the 1960s, for example, the state was responsible for the majority of fixed capital formation; in Britain it accounted for 45 per cent of fixed capital formation in the following decade.¹¹ Forms of direct intervention characterised the strategies of a variety of Third World states too – Peron's Argentina, Egypt, Iraq, Libya and India to name but a few. In Bangladesh in the 1970s, writes Peter Binns,

the state held 85 per cent of the assets of what it termed "modern industrial enterprise"; in Algeria it was employing 51 per cent of all workers in industry, construction and trade in 1972; in Turkey it was responsible for 40 per cent of value added in industry in 1964; in Brazil for well over 60 per cent of all investment by the mid-1970s.

Paralleling these trends, mainstream political ideology throughout the world, from the 1930s onward, shifted towards advocacy of planned state intervention. Mike Kidron has written of how

academics prescribed, planned, travelled tirelessly, in the cause of policy. They advised governments to harness to domestic "take-off" the development impulses leaking abroad; they pressed for large initial efforts and therefore for state planning and state enterprise; they masterminded a protracted war on the theory and practice of economic liberalism.¹²

By 1972 we could read of how '[f]ormalised medium or long-term economic planning has by now been attempted by nearly all the principal industrialised capitalist countries, including the United States.'¹³ A

9 Mazower, 1998, p. 135. For a comparison between Germany and the USSR, see Temin, 1991.

10 Temin, 1991; Gluckstein, 1999, ch. 7.

11 Binns, 1984, p. 82.

12 Kidron, 1974, p. 169.

13 Warren, 1972, p. 3.

year later, Daniel Bell predicted that the power of the entrepreneur was declining, as technocrats and administrators ascended to undisputed lordship over global affairs. The research of another American sociologist, published in 1980, found that

in only a handful of countries (mainly the USA and some of its client countries) is there serious ideological opposition to the expanding power of the state, and even in these places the general movement is toward greater acceptance of state dominance in society.¹⁴

It was precisely those countries in which 'the state had become most dominant,' he added, 'that have best met the standards of [economic] success in recent decades. Where the state is controlled by the Communist Party more rapid economic growth has occurred, at least since World War II.' Even five years later, in a generally unsympathetic account of Soviet planning, Peter Rutland could write that 'in certain respects the USSR no doubt still represents the shape of things to come.'¹⁵ The same year saw the publication of a book with the subtitle *The Third World Against Global Liberalism* by the American international relations theorist Stephen Krasner, a central assumption of which was that the governments of the South were, *en bloc*, committed to replacing market-based rules of international trade with 'regimes based on authoritative allocation'.¹⁶

It is true that the neo-liberal ascendancy of recent decades has seen many parts of the world economy move closer to the 'ideal type' description of capitalism. Tariffs have been slashed and capital controls curtailed or abolished. The 'Keynesian regulatory' state has in the process given way to what Phil Cerny has dubbed 'the competition state,' the priority of which is to adapt the domestic economy to world market forces.¹⁷ And yet even now, in this free-flowing phase of globalisation, not only do we find few states that approximate the neo-liberal ideal, but even the 'actually existing competition state' is often more willing to dust down the old tools of regulation, and invent new ones, than Cerny's dichotomy would suggest. In the age of 'globalisation,' writes James Anderson, states remain 'heavily involved in "market substitution" via state-run enterprises and in "market regulation"' even if the latter has become more prominent at the expense of the former. At the same time, moreover, states 'have become more competitive economically with each other and more involved in imposing the competitive discipline of capital on other institutions and society in general.'¹⁸

Reflecting the continued salience of state intervention, a vast literature exists that explores the nature of regulation in the contemporary epoch. Some is to be found in the work of critics of globalisation theory, some explores the variety of 'state strategies in the world economy,' others examine the diversity of business systems, regulatory institutions and 'models of capitalism' in the world economy today.¹⁹ By 'models of capitalism' scholars such as David Coates and Michel Albert distinguish between different

14 Boli-Bennet, 1980. By state dominance is meant 'the degree to which the state controls and regulates economic and social activity in its associated society'.

15 Rutland, 1985, p. 236.

16 Krasner, 1985 p. 112.

17 Cerny, 1990.

18 Anderson, 2001, p. 15.

19 To name but a few of the noteworthy publications in this field: Coates, 2000; Boyer and Drache, 1996; Ruigrok and van Tulder, 1995; Upchurch, 1999; Hollingsworth and Boyer, 1997; Berger and Dore, 1996; Hall and Soskice, 2001; Lazonic, 1991; also Hay, 2000.

modes of institutional regulation of the relations between states, business and the workforce. For Coates, the advanced economies may be divided into three broad types: '*market-led* capitalisms,' such as the USA, 'in which accumulation decisions lie overwhelmingly with private companies, which are left free to pursue their own short-term motives and to raise their capital in open financial markets'; '*state-led* capitalisms,' such as Japan, in which 'accumulation decisions' are taken primarily by private companies but invariably 'only after close liaison with public agencies' and often with considerable influence being exerted by state institutions and banks; and '*negotiated* capitalisms,' such as Germany, in which organised labour maintains 'a powerful market presence and the ability to participate directly in industrial decision-making.'²⁰

Here is not the place to enter into the debates that have arisen over these typologies, or, more importantly, over the current shape and future prospects of the various 'models'. The basic point that the 'models' literature, as well as that of the globalisation sceptics, make that is of relevance to the argument here is that states, even 'competition states,' by no means restrict their activity to 'politics' but intervene, persistently, in the sphere of the economic – controlling competition, channelling capital into 'strategic sectors' such as the 'knowledge-intensive' industries, subsidising R&D and inward investments, promoting inter-firm alliances, bailing out and even taking control of failing firms.

If this is even a partially accurate sketch of the variety of forms of economic intervention displayed by 'capitalist states,' the difficulties encountered in defining the Communist system in terms of its difference from and opposition to capitalism become apparent. If state industries existed on a large scale in Hitler's Germany, Franklin Roosevelt's USA or Macmillan's Britain, if China can establish a stock exchange, incorporate Hong Kong and join the WTO and yet remain under Communist control, how precisely is the opposition of the systems to be defined?

One solution to the problem is to move away from envisaging a simple opposition of capitalism and Communism and to attend instead to the variable forms of relationship between countries and the world economy in historical periods and in different regions. An example of the type of model that can be developed has been charted by the neo-Gramscian international relations theorist Kees van der Pijl. In a series of essays, van der Pijl has adumbrated a model of contemporary geopolitical and geo-economic history that centres upon a dichotomy between 'Lockean' and 'Hobbesian' state-society configurations.²¹ In the former, central state power is balanced by decentralised political authority and above all by the self-regulating market. These social structures – notably the investing of economic control in private hands – permit and encourage the transnational expansion of enterprise, as well as a variety of relatively flexible and loose international political arrangements. Because Lockean structures developed in the liberal heartlands of capitalism, and became home to 'the most advanced and profitable forms of capital accumulation,' a virtuous circular logic tended to result: these areas expanded their global influence, winning allies by dint of their economic and cultural pre-eminence, or directly fashioning extensions of the heartland through imperial conquest, and these processes, in turn, fuelled the profitability of the businesses of 'Lockeland' as well as their independence from state power.

20 Coates, 2000, pp. 9–10.

21 Van der Pijl, 1993, 1995, 1998.

Hobbesian state-society configurations, by contrast, emerged in relatively backward territories, the states and firms of which are forged in reaction to the competitive pressures from their more successful Lockean counterparts. Here, the attempt to overcome backwardness through the direct mobilisation of people and allocation of resources gives rise to a form of state that is less differentiated from society, is proactive in economic development and relies heavily upon centralised administration.²² In so far as success is achieved, as for France, Germany and Japan, these state-society configurations tend to become assimilated to Lockeland; companies based in such states tend to be able to realise a disproportionate share of global surplus value, and tend to shed their erstwhile dependence on a protective Leviathan. Those that fail to compete, on world markets and for geopolitical influence, are more likely to retain Hobbesian features but remain consigned to the margins.

For van der Pijl the STEs were Hobbesian societies; they were, as such, 'always capitalist in orientation,' since their sights were 'set on catching up with the capitalist heartland'.²³ The question that this formulation begs is how precisely should this relationship be theorised? Was it similar to the orientation of absolutist (or 'Hobbesian') European states towards the Netherlands and Britain in the eighteenth century? In that epoch, as Giovanni Arrighi describes, a wave of 'new-style industrial mercantilism' was sweeping Europe as the rulers of some absolutist regimes sought 'to *imitate* the Dutch, to become themselves capitalist in orientation as the most effective way of attaining their own power objectives.'²⁴ Although these goals were essentially the traditional, absolutist goals of political aggrandisement, over time geopolitical competition with capitalist states tended to encourage an 'internalisation of capitalist techniques of power.' Applied to the STEs, this model would suggest that their existence within a capitalist world system propelled them to seek to imitate capitalist structures, even if only with the aim of matching capitalist states militarily.

In 'Hobbesian' formations such as France and Prussia the 'internalisation of capitalist techniques' occurred over the course of the eighteenth and nineteenth centuries above all by way of state-led reforms that encouraged the proletarianisation of the peasantry and facilitated the growth of market-oriented agriculture and industry. Was the industrialisation of the USSR in the twentieth century similar to that of mercantilist absolutisms of the eighteenth century? In other words, were capitalist techniques incorporated into essentially pre-capitalist social formations? Alternatively, could it have represented a fully-fledged form of capitalism, based upon state property?

The latter interpretation, the case that the USSR was a 'state capitalist' society, forms the basis of the argument in this book. Although the concept has been used in a variety of different ways, that which that is drawn upon here was first developed by the British-Palestinian Marxist Tony Cliff. Capitalism, in his

22 'Hobbesian' strikes me as being a misnomer. Hobbes was surely a (if not *the*) theorist of the separation of state from society, not of its substitution for a laggard bourgeoisie. 'Hamiltonian' or 'Listian' would seem to be more apposite terms. A more scrupulous projection of Hobbes's and Locke's views of the state onto the stage of world politics has recently been proposed by Gilbert Achcar (2002, pp. 92–101). For Achcar, Hobbesian politics is based upon fear; and posits power as self-legitimizing. Lockean politics is based upon freely given consent. Extrapolated onto the international plane, Achcar suggests, Hobbesians, represented by Theodore Roosevelt, favour the 'big stick' – hegemony based upon force; Lockceans, such as Franklin Roosevelt, emphasise multilateralism and international law.

23 Van der Pijl, 1995, p. 111.

analysis, is defined in terms of two core features. Firstly, that producers are separated from the means of production; that they are compelled to sell their labour power in order to survive. Secondly, that the owners of the means of production exist in a systematically competitive relationship with one another. In combination, these give rise to what Cliff holds to be the fundamental dynamic of capitalism, one which has been memorably summarised by Marx in an imagined mini-manifesto for the bourgeoisie:

Accumulate! Accumulate! That is Moses and all the prophets! [...] [Y]ou must save, you must save; you must reconvert the largest possible proportion of surplus value or surplus product into capital. Accumulation for accumulation's sake, production for production's sake, this was the formula by which the classical political economists gave expression to the historical mission of the bourgeois period.²⁵

The USSR, according to Cliff's argument, was in a qualitatively different position to the absolutist powers of the eighteenth century. Firstly, capitalism had 'globalised' in the intervening centuries. Secondly, Russia's nascent bourgeoisie, whether through emigration or expropriation, had been all but eliminated in the wake of the revolution of October 1917. Cliff's thesis, in a nutshell, is that after the social movements that had brought the Bolshevik-led government to power subsided over the subsequent decade, the chief proprietor of Russian industry, the Communist Party, under pressure from military competition, came to subordinate society to the exigencies of competition with capitalist states. The process of forced industrialisation in the 1930s ensured that the Russian situation was in a third respect qualitatively distinct from that of pre-capitalist absolutisms: the producing classes were, almost in their entirety, divorced from the means of production and obliged to sell their labour power in order to make ends meet.²⁶ The outcome was that the layer of bureaucrats who controlled Soviet society (chiefly those individuals who were listed on the Communist Party's 'nomenklatura'²⁷) came to act as a capitalist ruling class. In this reading the USSR was in economic terms a unit of capital – albeit with internal differentiation, not unlike a multi-divisional enterprise. The planned economies of the STEs 'represented an attempt to transpose the economic rationality of capitalist enterprise onto the national economy as a whole,' as the former vice-president of the GDR's State Planning Commission put it, and they did so in the interests of economic and military competition with capitals and states elsewhere.²⁸

The argument that the STEs were state capitalist has been developed by others, and there is no need to repeat it in any detail in these pages.²⁹ However, an introduction to the approach is provided, in chapter one, by way of a discussion of its implications for theorising the interaction between the capitalist world economy and states-system and, in chapter two, through an account of the origins and peculiarities of the Stalinist economic form. Chapter three moves on to examine Moscow's foreign policy under Stalin, in

24 Arrighi, 1994, pp. 140–1. Italics in the original.

25 Marx, 1930, p. 654.

26 For a fuller and fairer analysis one would have to attend to the role of private peasant plots, and of prison labour. Although important, these qualify rather than refute the main trend.

27 'Nomenklatura' refers to the lists of senior positions in the Communist Party, state and economic apparatuses.

28 Klenke, 2001, p. 22.

29 Relevant texts can be found in the bibliography. See Cliff, 1964 and 1974, and Harman, also Kidron, Callinicos, Haynes, Gluckstein, Binns and Harris.

particular the confrontation with its western allies that led to the division of Germany. The establishment of the GDR is situated within the context of an unevenly developed world economy, in which the interest of American capitalism in rebuilding a liberal world market clashed with that of the underdeveloped and capital-hungry USSR in reaping immediate gains from military victory. In subsequent chapters an economic history of the GDR is presented, with particular attention paid to its relations with the USSR, the FRG and the world market. Finally, in chapter nine, the economic record of eastern Germany in the 1990s is examined, during which a critical eye is cast over the suggestion that German unification represented a 'return to modernity' in which the economy of the East was hoisted back on to the 'capitalist autobahn.'

1. The Geopolitics of Capitalism in Marxist Theory

Any attempt to grasp the nature of the relationship between the STEs and the world economy inevitably comes up against wider questions of the relationship between the world economy and the inter-state system. Are these two separate but inter-connected systems? Are they different dimensions of a unified whole? Or is neither of these formulations adequate? Before exploring an approach to these questions that is based upon the theory of state capitalism, let us first consider the prevailing theories as developed by realist, liberal, neo-Weberian and Marxist international relations theorists.

For realists, the constitutive units of world order are nation states in an anarchic system; the basic coordinates of state behaviour are fixed by these structures. Whatever the professed ideologies of parties in government, policymakers are forced to prioritise the survival of the state; whether capitalist or Communist, they become socialised into behaviour that centres on mutual distrust and self-reliance. Geared to the end of maximising national security, states aim to augment their own capabilities and resources, a task which depends in large part upon the wealth owned by, and productivity of, their citizens and inhabitants relative to those of rival states. There is no certainty that free market competition will be best suited to achieving these ends. If national power is served by 'bending the rules of the market,' then bend they should. Many realists, accordingly, explain the emergence of étatiste systems with reference to the temptation faced by states in a subordinate position within the world hierarchy to intervene intrusively in the economy in order to help 'their' industries punch their way into already-crowded world markets.¹

In the ontology of liberal pluralism, by contrast, the frame of reference is broader – society 'in general,' rather than simply the states-system. The constitutive unit of society for liberal pluralists, is the individual, and it is the capacity of individuals to form themselves into a variegated range of social groups that forms the heuristic that underpins research into the relationships between state and society. 'The individual' is found not only at the methodological foundation of this approach, but defines its core normative goal too – the establishment of a framework in which individuality can best thrive.² Applied to the economy, the liberal model therefore holds étatisme to be *necessarily* abnormal and counterproductive.³ Applied to politics, it gives greater credence to the impact of interest groups upon state policy. And, because ideology plays a central role in the emergence of such groups and in structuring their values and policy proposals, it is accorded greater explanatory weight than in realist perspectives.

1 E.g. Sen, 1984.

2 This summary draws on Arblaster, 1984 and Lukes, 1973, amongst others. For a similar account, see Keohane, 1990, p. 174.

3 The reasoning is as follows. A fundamental condition of liberty is the existence of private property, entailing the right to use what one owns as one wishes, including the ability to transfer it freely whether by gift or by exchange on markets. The institutions of private property and the market represent both freedom (the realm of individual choice) and equality (of contracting partners). They also maximise productivity, as the ability to retain revenues as private property encourages hard work and wise investment, while competition on free markets rewards efficiency and enables producers to respond rapidly to changing consumer demand. The role of the state, in this conception, is to provide the framework within which individuals can pursue their private goals.

For all their differences, however, one important point is taken for granted in both approaches: that capitalism and the inter-state system should be considered as essentially separate (albeit interconnected) institutional frameworks.⁴ As to precisely *why* this should be the case, there are relatively few theories available. And indeed, why should there be? If capitalism is defined as a congeries of rational capital accounting, private property, market exchange and wage labour, and if the inter-state system existed – as in Europe it clearly did, in some sense at least – before these institutions and methods gained sway over the economic arena, their separateness would appear to be either a non-question, or, as in traditions derived from the work of Hintze, an invitation to explore the roots of modern capitalism in the competitive struggles of nation states.

The question has been raised in a rather different way by neo-weberian historical sociologists such as Michael Mann and Anthony Giddens. For Giddens, the ‘great transformation’ from traditional to modern societies is best understood with reference to not two but three core organisational forms – capitalism, industrialism, and the nation-state system – each of which correspond to one or two ‘institutional clusterings’: the capitalist enterprise, industrial production, surveillance, and control of the means of violence. ‘The world system’ should therefore be seen ‘as influenced by several primary sets of processes’, notably those associated with the nation-state system, information exchange, the world capitalist economy and the world military order.⁵ Giddens seems to be guided in this by a particular project – discernable in particular in *The Nation-State and Violence* and *The Consequences of Modernity* – that it would not be inaccurate to describe, in the style of Tony Blair, as the ‘modernisation’ of classical social theory. For the major traditions of social theory, ‘have tended to look to a single overriding dynamic of transformation in interpreting the nature of modernity’, Giddens observes, whether this be identified as capitalism (Marx), industrialism (Durkheim) or rationalisation (Weber).⁶ Quests for the Holy Grail of social theory, the attempt to find *the* golden key that will unlock the secrets of modernity, Giddens admonishes, are bound to founder upon the irreducibly plural logics of economic and political institutions. ‘Modernity,’ he proposes, ‘is *multidimensional on the level of institutions*, and each of the elements specified by [the Marxist, Durkheimian and Weberian traditions] plays some part.’⁷

There is a considerable literature on this aspect of Giddens’ work alone, and there is no need for it to be added to here. One of Giddens’ most prominent critics, however, does merit mention at this point. In a brace of critical reviews the Marxist international relations theorist Justin Rosenberg has asked some teasing questions of *The Nation-State and Violence* and *The Consequences of Modernity*.⁸ Of particular relevance to the themes of this chapter is his dissection of Giddens’ treatment of the separation of politics and economics. For Giddens, this exemplifies the multidimensionality of modern institutions, a conclusion that

4 As Robert Gilpin puts it, 1987 p. 10, ‘state and market, whatever their respective origins, have independent existences, have logics of their own, and interact with one another.’

5 Giddens, 1985, p. 290.

6 Giddens, 1990, p. 11.

7 Giddens, 1990, p. 12.

8 Rosenberg, 1990, 2000. In passing, I would draw attention to his suggestion that Giddens’ concern to deconstruct the monologies of classical theories has given way to a desire to reimpose an overarching order, a new ‘single, overriding dynamic of transformation.’ Christened ‘time-space distanciation’ in Giddens’ 1990 volume and ‘globalisation’ in its successors, this dynamic has come to be seen not simply as a descriptor of neo-liberal trends in the world economy but as a new master concept of social theory.

the classical theorists resist. Yet, Rosenberg points out, '[f]or Marx, as Giddens himself later notes in passing, the differentiation of politics and economics *on the level of institutions* is central to the very definition of capitalist society.'⁹ Giddens' response would presumably be that his critique of Marx is not that he was blind to institutional differentiation, but that this is reductively attributed to a dominant underlying institutional nexus: capitalism. And yet with this, firm ground is not reached, for, as Rosenberg points out, although Giddens' four 'institutional clusters' supposedly enjoy some intellectual equivalence, in *The Consequences of Modernity* one finds that an enormous role is played by one in particular. Capitalism, even for Giddens, seems to exert a gravitational force upon the economic and political structure of society as a whole. Already early on in the book,

the reader has learned: that capitalism preceded and largely generated industrialism [61]; that the monopoly of violence commanded by the modern state is connected with the extrusion of force from the labour process due to the changed "nature of class domination" brought about by capitalism [62]; and that the 'insulation' of politics and economics which produces the modern sovereign form of state is one of the "specific institutional features" [56] of capitalist societies.¹⁰

This would be an empty point if Giddens' other 'clusters' influenced capitalism in a similar manner, but, Rosenberg continues, its explanatory role 'is not reciprocated by an equivalent set of determinations running the other way'. Industrialism, for example, is described as 'lacking' in 'dynamism'; 'it carries no inner dynamic of the sort associated with capitalist enterprise.'¹¹ If this be so, then might historical materialism not after all offer a framework within which the problem may be plausibly addressed? Rosenberg proposes that it does.

'The political spirit'

In Marx's account, capitalism is a system built upon a unique relationship of production, that between 'owners of money, means of production, means of subsistence' on the one hand and 'on the other hand, free workers, the sellers of their own labour-power'. Separated from the necessary means and materials of production, in the sense that those conditions of production belong to other parties, workers must contract with them in order to produce; they must sell labour power to secure the means to survive. The product of their labour is sold by the owners of the means of production. It is the confrontation of and contact between these two different classes of commodity owners that establishes the capital/wage-labour relationship: 'with the polarization of the commodity market into these two classes, the fundamental conditions of capitalist production are present'.¹²

Although this relationship is centred in the sphere of production, its effects extend to other social institutions. The form taken by state power is connected to it, and in particular the distinction between private and public domains. In pre-capitalist societies, class relations were not partitioned into 'public' rule

9 Rosenberg, 2000, p. 96.

10 Rosenberg, 2000, p. 117.

11 Giddens, 1985, p. 140.

and 'private' exploitation. Because the actual producers of wealth either did not own their persons (slaves) or did own or control at least some elements of the means of production (serfs, artisans, independent peasants) direct force had of necessity to be applied 'at the point of production' for a surplus to be extracted. With the dissolution of feudalism, by contrast, a class of people came into existence which, in Marx's description, was 'free in a double sense,' free, on the one hand, 'from the old relations of clientship, bondage and servitude,' and on the other, '*free of all property*'; dependent on the sale of its labour capacity.'¹³ This 'double liberation' describes the development of the labour market, that 'paradise of the rights of man,' in Marx's phrase, in which 'liberty, equality, property, and Jeremy Bentham [self-interest] are supreme.'¹⁴ On the labour market we are each at liberty to buy and sell; our exchanges are based upon consent; and we transact our business under conditions of legal equality, with each of us entitled to refuse to enter into a contract with the other.

However, if this Eden applies to the *contractual* relationship between worker and employer, once the bargain between them is struck they move into a quite different realm, that of the workplace. By selling their labour power, wage labourers put themselves under the command of capitalists or their surrogates (corporate managers). In the workplace, therefore, the buyer of labour power is entitled to demand the full use of the property he has just hired, and sets the seller to work. Marx's description of these two personae, as he follows them from the dignified air of the marketplace down into the 'hidden abode of production,' draws attention to the disparity of power involved:

The one who came to the market as the owner of money, leaves it striding forward as a capitalist; the one who came to the market as the owner of labour power, brings up the rear as a worker. One of them, self-important, self-satisfied, with a keen eye to business; the other, timid, reluctant, like a man who is bringing his own skin to market and has nothing to expect but a tanning.

The relationship between them now must be described in an altogether different vocabulary. Marx, as Barker describes,

turns to the political language deployed by the analysts of slavery and ancient empires, the language of 'despotism'. Within the workplace, the buyer of labour power has become the 'master', the 'boss', while the seller has transmuted into the 'hand', the 'worker', the 'wage slave'.¹⁵

The despotic aspect of class relations is in one respect far-reaching. Unlike in most other modes of production, there is in capitalism an effective coincidence of what Bob Jessop, following Poulantzas, calls 'the twin economic powers': control over the labour process as well as control over the goals of production and the appropriation of surplus labour.¹⁶ Yet in another sense the techniques of 'capitalist despotism' are strictly demarcated. Contained within the bounds of private property the exploitation relation can be enforced primarily through the effect of propertylessness on the workers' 'voluntary' decision to hire out

12 Marx, quoted in McNally, 1993, p. 7.

13 Marx, 1973, p. 507.

14 Marx, 1930, p. 164.

15 Barker, 1997, p. 36.

16 Jessop, 1982, p. 160.

their labour-power rather than by direct coercion within structures of personal obligation or ownership. This has an implication for the form taken by state power in capitalist society. Because the 'political,' even 'despotic,' nature of the relationship between capitalists and their representatives on the one side and their employees within the farm, factory or office on the other can appear as the strictly 'private' realm of civil society, a space distinct from civil society can emerge in the form of the modern 'political state'. The reconstitution of surplus extraction as a private activity, as 'economics,' enables the redefinition of political power as a public communal space. As Marx described, the overthrow of feudalism,

Set free the political spirit, which had been, as it were, split up, partitioned and dispersed in the various blind alleys of feudal society. It gathered the dispersed parts of the political spirit, freed from its intermixture with civil life, and established it as the sphere of the community, the *general* concern of the nation, ideally independent of those *particular* elements of civil life.¹⁷

In Rosenberg's elaboration of Marx's argument, the capitalist state's role, unlike previous forms of coercive power, is purely political:

it guarantees contracts between private individuals, it keeps the peace both internally and externally, it imparts a degree of collective management to the overall social development of the society. But there are also things that it no longer does, social roles which are by the same token removed from the domain of political power and redefined as private. Among these, the most striking is the process of surplus extraction.¹⁸

In other words, the separation mentioned earlier – between the means of production and those who must sell their labour-power to survive – underpins the differentiation of public and private spheres, the de-politicisation of private exploitation and, correlatively, the advent of the 'political state'. Rosenberg's distinctive contribution is to explore the implications of these ideas for international relations.

Anarchy the right way up

A seminal work, *The Empire of Civil Society* contains a set of innovative theses worked into a panoramic sweep through world history, in addition to detailed critiques of realist texts; here I can do no more than sketch some of the cornerstones of its overarching argument. The starting point of Rosenberg's book is spelt out in its subtitle: *a critique of the realist theory of international relations*. It is not a critique of this or that realist approach, nor an 'external' attack, but an attempt to demonstrate that realism is best grasped as a correlate of a real but fetishised matrix of social relations – that it is ideological, in the full sense of the word. Where realism takes the autonomous state to be an attribute of institutions of rule *sui generis*, Rosenberg reveals it to be a specific historical form. Where realism conceives of the anarchic inter-state system as a timeless, if varying, condition of geopolitics, Rosenberg shows it to be 'the characteristic social form of capitalist modernity.'¹⁹ And where realism tells us that modern international politics is distinctive in the degree to which it is embedded within an anarchic inter-state system, Rosenberg turns the equation

17 Rosenberg, 1994, p. 69.

18 Rosenberg, 1994, p. 126.

19 Rosenberg, 1994, p. 123.

the right way up: it is, rather, that such a states-system can only exist due to the rise of a distinctive and novel form of 'politics'.

This feat, and it is in my view a considerable one, is achieved by demonstrating that the capitalist world economy and the system of sovereign states are internally related.²⁰ To a large extent the argument is an application to the international dimension of the insight that 'politics' and 'economics' tend to become prised apart where capitalist relations hold sway. Modern forms of sovereignty, Rosenberg emphasises, involve 'the idea of the state being outside, over against civil society, autonomous, "purely political"' ²¹ Conversely, because 'capitalist relations of surplus extraction are organized through a contract of exchange which is defined as "non-political,"' it becomes possible, 'in a way that would have been unthinkable under feudalism, to command and exploit productive labour (and natural resources) located under the jurisdiction of another state.'²² If states are juridically sovereign, their prerogatives confined to the 'public political' sphere, a *system* of such states permits regular and large-scale cross-border transfers of private property and indeed the globalisation of commodity relations – the world market. As Rosenberg puts it, '[l]ines of political jurisdiction halt at fixed national borders' in modern capitalism, 'while those of economic activity speed on through a myriad of international exchanges without undermining the ramparts of formal sovereignty.'²³ Whereas the pre-capitalist European states-system had been forged by feudal rulers through round after crisis-propelled round of land-grabbing that encouraged a 'self-perpetuating and escalating' dynamic of competitive state-building (or 'political accumulation'²⁴), the emergence of capitalism enabled the institutions of economic accumulation to be progressively divorced from those of territorial sovereignty, the world market from the inter-state system.

Rosenberg's thesis is remarkable as an explanation of the deep structures of international politics that is consistent with a core claim of historical materialism – that it is in 'the direct relationship of the owners of the conditions of production to the immediate producers' that 'we find the hidden basis of the entire social edifice, and hence also the political form of the relationship of sovereignty and dependence, in short the specific form of state.'²⁵ For his finding is that the characteristically modern forms of the sovereign states-system are enabled by the geographical expansion of societies based upon the capital-labour relation. 'Behind the contemporary world of independent, equal states,' he concludes, 'stands the expropriation of the direct producer.'²⁶ Yet as Rosenberg himself would be the first to admit, such exercises in form analysis achieve little unless they can be put to more practical work, notably in contributing to our understanding of the dynamics of modern history. Although this is not the task of *The Empire of Civil Society*, one major implication for concrete historical analysis is revealed. Given that the separation of economics and politics is not simply a powerful tendency within but the very 'signature of capitalist society,' he maintains, it is

20 'An internal relation,' as Mark Rupert (1993, p. 90), following Bertell Ollman, defines it, 'is one in which the inter-related entities take their meaning from (or are constituted within) their relation, and are unintelligible (or non-existent) outside of the context of that relation.'

21 Rosenberg, 1994, p. 127.

22 Rosenberg, 1994, p. 129.

23 Rosenberg, 1994, p. 121.

24 Brenner, 1982, p. 38.

25 Marx, 1981, p. 927.

26 Rosenberg, 1994, p. 172.

their ongoing differentiation that forms the cutting edge of capitalist development: 'the increasingly global [...] separation of economics and politics' is synonymous with the 'construction of the world market and the linked emergence of a sovereign states-system'.²⁷

Although this is not the place to exposit Rosenberg's argument in detail, I would suggest that it offers a sophisticated response to the gauntlet thrown to historical materialists by Giddens. And yet in its depiction of the actual history of capitalist development it confronts a number of problems. Consider, for example, the globalisation of the sovereign states-system. It was a process that reached its apogee in the last century, an era of successive waves of imperial implosion and decolonisation that stretched from the dissolution of the Ottoman and Austro-Hungarian empires to that of the Portuguese. It was not, mark, a period dominated by the progressive separation of politics and economics but instead witnessed a staggered shift from the liberal regimes of the previous century to the age of autarky and statism of the 1930s and subsequent decades. The spread of the liberal world market and the sovereign states-system, it would seem, are not as interdependent as Rosenberg would have us believe.

In Rosenberg's model this problem is not ignored. Rather, moves toward a greater role for authoritative allocation, within domestic economies or international regimes, are defined as either reflecting the requirements of 'primitive accumulation' or as manifestations of a counter-capitalist logic. Whether these are sufficient explanations of the history of state intervention in the last century is a question that cannot be treated here. An aspect of the method can, however, be highlighted. In defining the modern capitalist state strictly as external to the process of surplus extraction, Rosenberg is able to uphold his contention that modern sovereign states and the liberal world market developed in unison, but at the price of a dematerialised model of the capitalist state. It is, in his view, even 'lighter' than the nightwatchman state of lore. It is a model to which certain contemporary polities may approximate – Bermuda and the Cayman Islands spring to mind. But most, for better or worse, are far removed from this condition. Even if one leaves aside direct ownership, another form of surplus extraction, taxation, accounts for 40 to 50 per cent of national income in most OECD countries. The tendency towards the prising apart of 'politics' and 'economics' is real, but it is persistently contradicted by the fact that states – whether as a result of their 'form-determined' role in maintaining the framework for capital accumulation, or of the requirements of state-building and the exigencies of geopolitical competition – are persistently drawn into direct and forceful intervention in 'the economy.' It therefore seems that although Rosenberg has succeeded in solving, at the level of historical *forms*, the problem that historical sociologists have thrown Marxism's way – of whether institutional differentiation can be squared with historical materialism – he has reproduced, in his depiction of the *content* of the relationship between states and capitals, an image of the 'purely political' state that echoes traditional liberal theories, before their critique and supersession from the directions of international political economy and historical sociology.

²⁷ Rosenberg, 1994, pp. 126, 134.

The violence of value

An approach that avoids the pitfalls illustrated has been developed, in a series of articles and papers, by another British Marxist, Colin Barker. There are many points of similarity between Barker's argument and that of Rosenberg and Wood, notably the axiom that wage labour is a defining element of capitalist society. However, in two signal aspects his account diverges.

The first is methodological. Most Marxists would agree that a distinction can usefully be made between the abstract model of capitalism as outlined by Marx in *Capital* – which is reconstructed through isolating the essential features of capitalism that are common to all its variants – and more concrete models of 'actually existing' capitalist societies.²⁸ This distinction between levels of analysis, however, begs the question of how the relationship between the two should be conceived. One possibility, Rosenberg's, involves identifying the essential features of the abstract model – simple abstractions such as production for exchange, free wage labour or the separation of the private and public spheres – with capitalism *per se*.²⁹ Barker's, by contrast, involves proceeding from the most abstract concepts, step by step, towards 'the form which they assume on the surface of society, in the action of different capitals on one another, in competition' – thence, to the world market and states-system and to the consciousness 'of the agents of production themselves'.³⁰ This method, as another of its exponents, Alex Callinicos explains,

is not a deductive one: rather, it involves [...] the *position* of concepts. In other words, concepts specifying some new determination are introduced where it becomes necessary to analyze an aspect of the capitalist mode hitherto excluded from consideration. [...] Such new determinations are not somehow contained in the "concept" of capital [...]: their introduction adds new content to the theory and allows it better to reconstruct the capitalist mode, in Marx's words, "as a rich totality of many determinations and relations".³¹

It is a method that understands simple abstractions (e.g. commodity exchange, wage labour, the sovereign states-system) to be categories that, to be fully developed, require repeated reinterpretation with each analytical step from simple abstraction to the 'surface of society'.³²

The second major difference is substantive. When addressing the question of the form in which surplus is 'pumped out' of the direct producers in capitalist society, Barker breaks down the standard answer – the production of surplus value – into two components: the *production of surplus* and the *form of value*. The former may be described as the "'vertical" or class division'; the latter, 'value' aspect, 'points us towards an equally characteristic and constitutive "horizontal" division of society' – the divisions of labour and of the means of production, as organised via a nexus of antagonistic relations 'summed up in the terms "private property" and "competition"'.³³

28 See also Callinicos, 1995, p. 134.

29 Callinicos, 2001, p. 243; see also Banaji, 1977; Callinicos 1995.

30 Marx, in Callinicos 2001, p. 239.

31 Callinicos, 2001, p. 240.

32 See Banaji's seminal article, 1977.

33 Barker, 1997, p. 51.

These axes, Barker proposes, form ‘a dual core set of relations’:

The heart of the accumulation process is the continuous extraction of surplus labour using ever new methods, a process fuelled by the competitive relations existing among the various centres or units of accumulation, and constantly resisted by those subjected to it.³⁴

A firm’s competitive success and even survival depends upon increasing the productivity of the workforce, whether through the application of technology, the reorganisation of the production process or increasing the length or intensity of the working day.

At this stage in the argument Barker draws upon a body of thought associated with the ‘derivationist’ school of state theory.³⁵ The starting point for this approach is Marx’s observation that commodities cannot go to market of their own accord but must be committed to circulation by subjects, their owners.³⁶ If commodity circulation is to be even minimally stable across space and time, the possessors of commodities must place themselves in relation to one another as persons whose wills reside in those objects, and must behave in such a way that each does not appropriate the commodity of the other and alienate his own except through an act to which both parties consent – the contract. If commodities are to be alienated on a daily basis and if the ‘factors of production’ are to bring profit to one group but wages to another, rules of ownership must apply. Those engaged in commodity exchange must reciprocally recognise rights to private ownership and to freedom and equality in exchange. The constitution of the parties to contracts as free and equal legal subjects and the guaranteeing of contract law involve, as Barker puts it, ‘the practical introduction into every contractual relation of a “third party.”’ This side of the derivation proceeds from generalised commodity exchange, through the requirements of contract, to the implications for property right and the rule of law.

Property right, however, is simultaneously the right to *exclude* others. Because exchange depends upon the alienability of commodities, ownership must be, in principle at least, *absolute*, with others excluded from possession.³⁷ The system of generalised commodity relations and the separation of wage laborers from the materials of production is thus bound up with a ‘social division of property’. If the division of property, both amongst owners of means of production and between these and non-owners, is to be maintained with any sort of stability, some sort of extra-economic force is required – for the potential for transgression of property rights is ever-present. As Barker describes,

34 In Barker and Dale, 1998.

35 Barker’s other major contemporary sources include Fine, 1984; Kay and Mott, 1982; and Cliff, 1964.

36 Pashukanis, 1980.

37 The historical record suggests a strong link between the rise of capitalism and the development of ‘absolute’ private property. Important explorations of the re-definition of property that prepared the way for and were reinforced by the development of capitalist society are C. B. Macpherson’s ‘*Possessive Individualism*’ and Perry Anderson (1974, esp. pp. 424–5). In the England of Macpherson’s account, up until the seventeenth century property was understood as the right to use and enjoy something, which included an individual’s right to exclude others but also the right not to be excluded from the enjoyment of things for common use. From the age of Hobbes onwards, however, the ‘natural right’ to use land and things of common ownership became increasingly limited in scope and so faded from meaning. Property came to acquire a new, narrower usage: the exclusive right of an owner to use *and dispose of* things. See also Kay and Mott (1982).

For the social process of commodity production and exchange to function, the world of things must be divided up into discrete and delimited parcels of “property,” each of which is attached by notions of “right” to particular production units.³⁸

Capitals depend upon security of various sorts; they rely upon stable physical, economic, political and cultural infrastructures for their reproduction, and yet – because at loggerheads, their aims defined by self-interest – are ill-equipped to establish such structures on their own. The process of accumulation, indeed, generates instability and undermines the grounds of its own existence. In short, commodity relations as a generalised form, and capital accumulation in particular, depend upon coercive power. Force and violence, in this analysis, are connected at the very deepest level to the capitalist economy.

In practice, the ‘third party’ and the ‘moment of coercion’ upon which its authority rests, have generally been embodied in states. Modern states typically administer uniform, standardised legal systems, giving legal form to the relations between capitals and between capital and labour. They enforce law – arbitrating disputes, enforcing contracts, and punishing breaches. They are the constitutors and guarantors of property rights. But the role of the state is more than juridic. The juridical role alone requires the possession and use of means of violence.

More recently, Barker has taken this analysis a step further, suggesting that it may illuminate not only the jurisprudential and political corollaries of capitalist production but also the *economic* aspects of state power. As we have seen, the ‘third party’ is no weightless system of laws and norms. These are created and executed by institutions – laws being initiated by governments, drafted by civil servants, passed by parliaments, enforced by police and interpreted by magistrates. The ‘third party’ not only ‘stands over’ the contracting parties, giving them legal definition as members of civil society, but rules them too – and must tax them if its rules are to have institutional purchase. In the process the prerogatives of private property owners are qualified – even as their rights qualify the powers of the state.

To fulfil the functions of managing population, defending private property and administering justice capitalist states are obliged to cream a surplus from the ‘economic sphere,’ via taxation. They develop an intimate interest in the value accruing to their subjects’ (as well as their own) property. They develop compelling interests of their own in the management of society in general and of economic organisation in particular.³⁹ Hence, the emergence of capitalist states involves much more than the development of civil law; it is also a process of ‘state building.’ As Barker describes, even the liberal state

collects and spends taxes; it recruits and may conscript personnel whom it deploys to its various apparatuses; it pays and may otherwise feed and provide subsistence to its personnel; it purchases and may commandeer land, goods and services; it shapes the supply of currency and, to the degree it borrows, affects the pattern of interest rates; it directly organizes the production of some goods and services; it may subsidize [prices of some products] while equally it may inflate the prices of other products by imposing a variety of taxes at the point of their production and/or sale; it enforces processes of economic “redistribution” through a variety of specific policies, from investment promotion to welfare.⁴⁰

38 Barker, 1998, p. 26.

39 Barker, 1998, p. 30.

40 Barker, 1998, p. 32.

In short, capitalist states not only supervise, defend, and provide legal frameworks for commodity relations, they also ‘build’ themselves, manage society, and must directly exploit their subjects in order so to do. As a result, the question of exploitation in capitalist society becomes more complex than the ‘capital versus labour’ formula would at first suggest. For, in Barker’s words, as we develop the concept of the state out of the legal-political exigencies of commodity production, we find that it is necessary to introduce a secondary, ‘competing, logic, that of state tribute and taxation.’ Within capitalism, the two forms of surplus extraction, by businesses and by governments, ‘are not simply separated and opposed but are each mutually entailed and complementary features of the other.’⁴¹

This is a model of the capitalist state that is quite capable of making sense of the fact that the secular tendency towards the institutional differentiation of economic and political power coincides with, and is partially contradicted by, tendencies indicative of substantial state involvement in the affairs of civil society. In addition to the classical liberal ‘nightwatchman’ roles (providing the legal and political framework for upholding the authority of the market, issuing currency and organizing unified markets, and administering the standardisation of time, space, and weight), states erect physical infrastructures that facilitate increased mobility of capital and turnover time,⁴² they regulate competition, shape the production and circulation of labour power, and supervise industrial and political struggles. They use their resources to force the combination or restructuring of capitals, to protect trade and subsidise exports, and to organise and fund R&D. They may even assume the role of capitalist themselves. As economies become more sophisticated and global competition intensifies, some of these tasks – such as the provision of physical infrastructure and the supply, training, health and security, and management of the workforce – grow in importance. An index of this is the long-term rise in taxation over the course of the last century.

Table 1: Government expenditure as percentage of GDP (average of fourteen advanced industrialised economies).⁴³

1870	1913	1920	1960	1980	1990	1996
8.3	9.1	15.4	28.5	43.3	46.1	47.1

With the intertwining of inter-state competition with economic competition and bargaining, domestically as well as in the world economy, states become compelled to refer to prevailing world conditions ever more closely and to tailor their strategies accordingly. Barker is only exaggerating a little when he claims that ‘The modern state has become as much subordinated to the imperatives of [...] the competitive accumulation of capital, as any trader, factory owner or proletarian.’⁴⁴

⁴¹ Barker, 1998, p. 31.

⁴² On turnover time, surplus value and communication networks, see Marx, 1959, pp. 70–1.

⁴³ From *The Economist*, 20.9.97.

⁴⁴ Barker, 1998, p. 48. This does not imply that state intervention is necessarily ‘functional’ to accumulation. Intervention may act as a brake to accumulation. It may hasten accumulation in one period but fetter it another. But in the latter case, the state will see its ability to tax, and to project power, dwindle.

From the northernmost reaches to the Southern Seas

Barker's reflections draw upon Marx, but also upon the 'second generation' of Marxist theorists the best known of whom are Rudolf Hilferding, Nikolai Bukharin, V. I. Lenin, Rosa Luxemburg and Leon Trotsky.⁴⁵ This was a generation who were growing up in the late nineteenth century, an epoch marked by rapid globalisation, but also one in which the liberal principles of international economic management that had dominated the middle of the century – notably *laissez-faire* economic policies, the gold standard and 'free trade imperialism'⁴⁶ – were, slowly but surely, giving way to a new order that was characterised less by liberal cosmopolitanism or liberal imperialism and increasingly by nationalism, protectionism and war. The rise of new centres of capitalism was transforming the world economy and states-system. As the new Powers gained in industrial and armed strength, British hegemony waned, giving way to what Eric Hobsbawm has referred to as the 'globalization of the international power-game'.⁴⁷

Between the turn of the century and the end of WWI, a series of distinctive analyses of this new phase of capitalism were produced, highlighting the fact that globalisation was not leading simply to the differentiation of 'political state' and 'self-regulating market,' but to spatial unevenness, geopolitical conflict, and state intervention. Common to them all was the general analysis that capitalism was, in Luxemburg's words, 'sweeping away all superannuated, pre-capitalistic methods of production and society, [...] from the most northern regions to the Southern Seas,' and giving way to a new phase of imperialism characterised by the concentration and cartelisation of capital together with intensified pressures to export capital and the intertwining of economic and geopolitical rivalries.⁴⁸ But what explained these changes? What were the interactions between them? To what extent did they involve a modification of the mechanisms of capitalist reproduction – did they enable competition to take a regulated rather than anarchic form? Did protectionism represent the subordination of capital to the interests of 'society' or *vice versa*? Their answers to these questions have been pored over and debated down the ages, and there is no need to add to the literature here. However, because their main findings form the foundations of the theory of 'bureaucratic state capitalism' upon which this author's analysis is based, they will be presented here, in summary form.

Firstly, they were attentive, to a greater degree than their forebears, to the geopolitical mechanisms of the transmission of capitalism and to the active involvement of state apparatuses in restructuring pre-capitalist societies. Market-driven growth had enabled England to achieve unprecedented military successes in the eighteenth and nineteenth centuries: its geopolitical rivals could only hope to keep step by creating conditions for the same – on pain of economic stagnation or military defeat. Thus, the states that established conditions for the production of the steel plants, railways and battleships capable of deterring or rivalling Britain's were also those that succeeded in replicating the core planks of its economic evolution, the separation of the direct producers from the land through the abolition of serfdom and the

45 Hilferding, 1981; Luxemburg, 1951; Bukharin, 1987; Trotsky, 1960; Lenin, 1975.

46 Gallagher and Robinson, 1953.

47 Hobsbawm, 1987, p. 315.

48 Luxemburg, 1970, p. 325.

administrative power of landlords, the guaranteeing of labour mobility and the creation of unified markets. These reforms could not rest at 'technical' measures alone, such as the assimilation of technology, but inevitably involved challenges to entrenched power structures, provoking domestic conflict and revolution. In Germany, Italy, the USA and Japan revolutions 'from above,' or 'passive revolutions,' to use Gramsci's term, saw state leaders and bureaucracies playing a primary role in dissolving serfdom and slavery, constructing a unified market. In the process these societies were transformed from a fragmented, semi-feudal or semi-colonial condition into centres of industrial capitalism.

By the end of the century it was apparent that although capitalism was sweeping all other modes of production aside, as Marx and Engels had anticipated, their assumption that later developers would see in the most advanced nation, Britain, 'a picture of their own future' was increasingly open to doubt.⁴⁹ It is perhaps unsurprising that it was a Russian, Leon Trotsky, who showed a particularly acute awareness of the limitations of this formula. Surveying the bleakness of the Russian plains – sparsely populated, culturally benighted and technologically backward, producing only a feeble surplus upon which trade and industry could feed – he argued that although Russia was being dragged onto the tracks of capitalist development its relatively backward starting point could not but exert a profound influence upon its modernisation path. An enormous, impoverished peasant population, a repressive labour regime, an undeveloped bourgeois class and an autocratic state: these were hardly propitious circumstances for industrialisation. On the other hand, backwardness was not without advantages. Institutions and practices that are successful elsewhere can be emulated. Technologies and techniques developed laboriously, by others, can be rapidly assimilated – taken 'off the shelf,' as it were. 'Savages throw away their bows and arrows for rifles all at once,' as Trotsky put it, 'without traveling the road which lay between those weapons in the past.'⁵⁰ In the case of some of Russia's industries, an entire epoch of development – of craft guilds and artisanal industries – that their British counterparts had passed through were skipped over, as large factories with imported state-of-the-art technology were stamped out of the ground.

Development in Germany, and even more so in Russia, involved the combination of different stages, producing amalgams of the archaic and the ultra-modern – pockets of advanced industry existed side by side with the mule-drawn wooden plough. Their development evinced a complex, combined character both in terms of technologies utilised and social classes and institutions. Even the Russian edition of 'passive revolution' proceeded in its own peculiar and crabbed manner. Staffed with landlords and ingrained with absolutist traditions and values, the attempts of the Tsarist state to stimulate capitalist development in agriculture in order to swell the surplus available to industry were, for the most part, stumbling and half-hearted. And yet, driven by the exigencies of geopolitical competition – as highlighted by the humiliating military defeats of 1854–5 and 1905 – the Tsarist autocracy, the class origins of its staff notwithstanding, abolished feudal serfdom and allowed top positions to be delegated to pro-capitalist

49 Marx, 1930, p. 863. Marx, did qualify this judgement, adding that in Germany there exist, 'side by side with the troubles peculiar to modern life [...] troubles handed down from the past, the outcome of the pursuance of antiquated methods of production, with their train of anachronistic social and political conditions. We suffer, not only from the living, but from the dead.' But such thoughts were never developed into a systematic theory of uneven and combined development.

50 Trotsky, 1980, p. 5.

modernisers. Above all during Count Witte's reign as finance minister, the government, rather than allowing the stalled condition of agrarian revolution to block its industrial counterpart, succeeded in uniting a traditional method of surplus extraction, the taxation of peasants, with large-scale borrowing from external sources of finance in order to push through a panoply of reforms aimed at, as Witte himself put it, "removing the unfavourable conditions which hamper the economic development of the country and at kindling a healthy spirit of enterprise."⁵¹ 'The herald of autocratic police capitalism,' as Trotsky fondly called him, Witte presided over a range of reforms: savings banks were encouraged; a series of state banks was established to funnel domestic savings and foreign capital to industry; steamship companies and nautical and engineering schools were founded; company law was reformed and the ruble made convertible.⁵² The Russian experience was typical of the group of 'late, late' developing countries that also included Japan.⁵³ 'Because of an absence of local entrepreneurs,' Hermann Schwartz has argued, these states 'used state-owned firms to ensure production of goods, occasionally privatizing these to create a weak sort of entrepreneur.' Whereas states in Western Europe largely aided private business, he continues, 'in Russia and the east the state had to create entrepreneurs and so tended to create (state-owned) industry in the early stages of industrialization.'⁵⁴ This form of passive revolution under autocratic tutelage is striking in its deviation from the English route to modernity, leading Trotsky to conclude that 'England in her day revealed the future of France, considerably less of Germany, but not in the least of Russia and not of India.'⁵⁵ In short, capitalism has evolved in an uneven and combined manner, provoking diverse means of adapting local conditions to the imperatives of international competition and breeding various and variegated social forms in different regions. New forms of capitalist elite emerged, subjugating their societies to the logic of accumulation in ways that undermined any assumptions of a 'normal' path of development.⁵⁶

A further innovation by the Marxist theorists of imperialism concerned the nature of economic competition and business organisation. Writers such as the Austrian Social Democrat Rudolf Hilferding drew attention to the fact that the very institutions that enable the widening and deepening of markets, and more 'perfect' competition – credit, banking, stock exchanges, etc. – also facilitate the concentration and centralisation of capital, and thereby contribute to monopolisation.⁵⁷ Greater concentrations of capital permit corresponding increases in the scale of production and distribution, enabling 'technological

51 www.fortunecity.com/victorian/hornton/890/RussiaNew3/Witte.html

52 Trotsky, 1971, p. 33.

53 The latter, however, industrialised a generation or two in advance of Russia. Brazier, 2002.

54 Schwartz, 2000, pp. 88, 95. Schwartz claims that the Russian case was also one of 'failed late industrialization,' in which an overreliance on foreign capital gave rise to conflict between the requirements of debt servicing and agricultural modernisation. This is largely convincing but too stark. It underestimates the considerable transformation of Russia – including rapid growth in both industrial and agricultural productivity – in the 1860–1913 period. For a more balanced assessment see Nove, 1992, ch. 1.

55 In Rosenberg, 1996, p. 8.

56 'Where in England,' Barker has described (1998, p. 50) 'small capitalist tenant-farmers and manufacturers [...] played a fundamental role in setting [England] on the road to industrial capitalism, [elsewhere and since] other kinds of social figures adapt their positions to play a similar functional part. Bankers, state bureaucrats, military personnel, former "feudal" samurai, Saint-Simonian socialists, nationalists, fascists, communists, Islamic ideologues and others were all [...] to play the role of "capitalist" in different local circumstances.'

57 Marx's formulation remains relevant: '[i]n practical life we find not only competition, monopoly and the antagonism between them, but also the synthesis of the two, which is not a formula, but a movement. Monopoly produces competition, competition produces monopoly. [...] If the monopolists restrict their

economies' as well as those of scale and speed.⁵⁸ Capitals that benefit from such economies tend to outcompete or may absorb their rivals.⁵⁹ Mergers and acquisitions, then as now, enable firms to diversify into unrelated sectors in which potential profit rates seem more promising, or as a means of risk reduction. Horizontal integration permits greater control over output, price and markets while vertical integration may assure supplies, insure against the costs of fluctuating output and lower other risks associated with dealing with external agents (such as breach of contract). Centralisation may simply be a defensive strategy: 'size protects,' as Mike Haynes suggests: 'it is necessary to be big enough to do the digesting and too big to be digested.'⁶⁰ But, as this image implies, there is a thin line between defence and offence: centralisation may help protect a business, but involves the elimination of competitors.

Hilferding and Bukharin in particular focused upon the implications of these developments for business organisation and its connections to the state. For Hilferding, capital concentration, combined with the tying up of ever-greater sums in the form of fixed capital, was progressively undermining the mechanisms of inter-enterprise competition. With their long turnover times, investments in fixed capital make depreciation a greater hazard; risk avoidance becomes the name of the game. These processes, in turn, were stimulating the formation of cartels, and alliances between banks and industrial enterprises. As Hilferding showed, cartelisation provided an organisational means of enabling capitals to overcome problems of price fluctuation and to charge artificially high domestic prices – corporations in monopoly or oligopoly positions, not to mention cartels, are able to 'make' as well as 'take' prices.⁶¹ In effect, he proposed, the distribution of profit through competition was giving way to its determination by organised means.⁶² Far from competition becoming more 'perfect,' it was market power and the capacity of business to reinforce indirect channels of influence upon government with direct links, that were the dominant trends of the age.⁶³

Hilferding's observations were based largely on Germany and its neighbours, but also the USA. It was here that the multi-divisional enterprise was pioneered, in which a number of geographically dispersed plants and vertically related operations were integrated within one corporation, facilitating economies of scale and scope.⁶⁴ Limited liability developed here too – it enabled the concentration of capital and diffusion of risk, encouraging investment. As William Lazonick has described, 'managerial capitalism' in

mutual competition by means of partial associations [...] competition becomes [more desperate] between the monopolists of different nations. The synthesis is of such a character that monopoly can only maintain itself by continually entering into the struggle of competition.' In Day, 1981, p. 32.

58 On vertical integration as enabling economy of speed as well as scale, see Alfred Chandler, paraphrased in Arrighi, 1994, p. 239.

59 Marx, at one point (1989, p. 656), imagines the process continuing until all capital, in a given society, 'were concentrated into the same hands, whether those of an individual capitalist or of a single capitalist trust'. Yet he was also aware that competition underpins countervailing tendencies – to fragmentation and decentralisation. See also Grossmann 1992, p. 147; Harvey 1982, p. 140.

60 Haynes, 1983, p. 74.

61 Hilferding, 1981, p 164 and *passim*.

62 The replacement of competition by planning did not mean, he was at pains to point out, the end of the anarchy of the market, but simply its displacement from the domestic level onto the world stage.

63 All major firms now have connections to one or other government office or department. As Janos Kornai observes (1986, p. 47), 'The growth of a firm depends not only on its success in atomistic markets but also on its power: the pressure it can put on its business partners, the relations it has with banks and, last but not least, the extent to which it can influence state decisions, taxes, subsidies and government orders.' On post-war cartelisation and other forms of 'private protectionism' and market-managing agreements, see Strange, 1996.

64 'Economy of scope' refers to the capacity to use a single set of facilities in a variety of processes of production or distribution.

the USA at this time, 'with its planned coordination was replacing proprietary capitalism with its market coordination' as the norm.⁶⁵ Reflecting these trends many observers – including Hilferding and Bukharin but also Veblen and, subsequently, Berle and Means – developed theories of the new 'corporate' or 'organised' capitalism, in which the growth in the scale and internal division of labour of firms promoted the role of corporate *governance*.⁶⁶ For some, the changes represented a transformation of capitalism into an entirely new, 'managerial' mode of production.⁶⁷ The theorists of imperialism, however, took their cue from Marx's observation that the joint stock company represented 'the abolition of capital as private property within the framework of capitalist production itself'; and as 'the *ultimate positing* of capital in the form adequate to it'.⁶⁸ 'Managerial capitalism' from this vantage point simply represents the development of private property in the means of production as an impersonal form, one that enables capital to appear more clearly as a social power based upon the separation of classes rather than as the personal property of 'private' individuals. As Chris Arthur puts it, 'the elimination of any idiosyncrasy, which the person of an individual capitalist may introduce, when he is replaced by the corporate person [...] results in a *purier* form of capital'.⁶⁹ The corporation itself is staffed by 'organisation men,' and women, turned out by the business schools and busily applying the latest scientific management techniques to the task of making profit. In Marx's prescient words, 'only the functionary remains, the capitalist disappears from the process of production.'⁷⁰ However, the relation of functionaries to their enterprise is not one of ownership. Or if it is, as Colin Barker has put it, 'it *owns them* rather than the reverse' – in the same way that, as Marx wryly remarked, 'the Prussian estate *inherited* the eldest son'.⁷¹

Putting Leviathan in the shade

The trends discussed above – towards globalisation, concentration and centralisation, and the replacement of proprietorial by managerial forms of enterprise – are widely recognised as inherent tendencies of capitalism. But what of that other development of the late nineteenth century: protectionism? It had been commonly thought in the mid-nineteenth century that, although protectionist strategies had been crucial to enabling firms based in Britain to gain leading positions on world markets, the general drift would be towards a liberal trade regime. By the turn of the century that illusion could no longer be harboured. Why did this unexpected turnaround occur? Was the rise and generalisation of protectionism in this period a consequence of the resurgent power of landowning classes and reactionary state officials? Was it a result of Listian-Hamiltonian policies to protect infant industries with 'educational' tariff barriers? Or were contingent historical factors, such as the revenue-gathering demands of states in times of war, to blame?

65 Lazonick, 1991, p. 14.

66 See also Schmitter, 1974.

67 E.g. James Burnham, 1945.

68 Marx, 1959, p. 436; 1973, p. 657. This process gives empirical grounding to Marx's sense of private property as the monopoly of means of production by a particular *class*. On this meaning of private property see Chattopadhyay, 1994.

69 Arthur, 1998, p. 14.

70 In Chattopadhyay, 1994, p. 26.

71 Barker, 1998, p. 38.

One influential explanation is Karl Polanyi's thesis of the 'double movement' – that protectionism represents the reaction of 'society in general' against the excesses of market liberalism, its aim being 'the conservation of man and nature as well as productive organization' (including 'capitalist business itself'), and its supporters hailing from those sections of society that are 'most immediately affected by the deleterious action of the market'.⁷² A rather different, and more sophisticated, account was presented by Hilferding, in *Finance Capital*. For Hilferding, the industrial protectionism characteristic of the mid-nineteenth century was to be understood largely in terms of the difficulties that infant industries faced due to imports from 'the overwhelming English competition,' allowing them

to overcome the difficulties of take-off, to master the obstacles created by the shortage of skilled workers and engineers, to close the technological gap, to create marketing organizations and promote the development of credit [...] in short, to catch up with all the things which gave England her supremacy.⁷³

He also accepted the notions that certain tariffs, on grain for example, may be implemented in the interests of landed classes or in part to earn revenue for governments. However, Hilferding put forward a novel explanation for the 'new protectionism' that marked the latter part of the century. Tariffs on industrial goods, he argued, now functioned less to protect old interests or even infant industries than to protect advanced sectors of industry, enabling them to raise prices on the domestic market – in effect imposing a tribute on domestic consumers – to subsidise export offensives on world markets.⁷⁴ For Hilferding, the conclusion was that the new protectionism was designed primarily to help technologically advanced corporations punch their way into external markets; 'once a defensive weapon of the weak [protectionism] has become an offensive weapon in the hands of the powerful.'⁷⁵ Understood in this way, protectionism and globalisation were not diametrical opposites. The former 'reduces the size of industrial plants, discourages specialization, and impedes, finally, that international division of labour which brings about a flow of capital into those branches of production for which a country is best suited.' However, it also encourages the export of capital. A business in one country that

is menaced by the protective tariffs of foreign countries now makes use of these tariffs for its own purposes by transferring part of its production abroad. [...] Thus the export of capital [is] promoted by the protective tariff of other countries, and contributes to the penetration of capital into all parts of the world and the internationalisation of capital.⁷⁶

The various types of industrial protectionism were especially prominent in late developing countries but, under the impact of their challenge to British hegemony and against the backdrop of the 'Great Depression' of the 1870s, they tended to generalise to the industrialised world as a whole. Businesses and

72 Polanyi, 1957, pp. 132, 192. In spite of its loose formulation, Polanyi's position is included here due to the renaissance it has enjoyed of late, amongst critics and sceptics of globalisation, above all social democratic neo-institutionalists.

73 Hilferding, 1981, p. 303.

74 This strategy of protectionist export promotion – nowadays associated with the likes of post-war Japan and South Korea – was already commented on in the 1880s by Engels when he pointed out that, unlike the old protectionism, the new 'mania for a protective tariff' was being applied especially to 'articles which are *capable of being exported*.' Bukharin, 1987, p. 75.

75 Hilferding, 1981, p. 310.

76 Hilferding, 1981, pp. 312, 314.

states responded to the deflationary times, pressures on profit rates and heightened international competition that characterised this epoch both defensively – by seeking to protect market share through protection of existing markets by way of tariffs and international cartel agreements – and offensively, through export promotion drives, capital export, and the imperial scramble for new markets and sources of raw materials.

Of the theorists of imperialism mentioned above it was Nikolai Bukharin, in his *Imperialism and World Economy*, who posed the question of the interaction between protectionism and the internationalisation of capital with the greatest clarity. For him, imperialism is best understood as a phase of capitalist development in which (i) the internationalisation of the productive forces tends to compel capitals to compete for markets, investment opportunities and raw materials at the global level; (ii) the concentration and centralisation of capital tends to lead to the integration of private monopoly capital and the state; and that the interaction between these two tendencies results in a marriage of interests between capitals and states such that the demands and affairs of businesses increasingly infuse military and political rivalries.⁷⁷ To the degree that this is so, the logics of economic intervention and of geopolitical rivalry can be imparted with a self-reinforcing dynamic. This is quite clearly the case with protectionism. As Bukharin described,

Cartel tariffs and the dumping system practiced by the foremost countries provoke resistance on the part of the backward countries which raise their defensive tariffs; on the other hand the raising of tariffs by the backward countries serves as a further stimulus to raise the cartel duties that make dumping easier. Needless to say that the same action and counteraction take place both among the foremost countries in relation to each other and among backward countries in their mutual relations. This endless screw, perpetually applied by the growth of cartel organisations, has called forth the “tariff mania” of which Engels spoke, and which has grown more pronounced in our days.⁷⁸

The late nineteenth century carve-up of the world amongst the Great Powers can be seen as the geopolitical corollary of ‘tariff mania’. In this regard, Eric Hobsbawm identifies two key developments. The first was the industrialisation of warfare: ‘It was impossible now to conceive of a “great power” that was not at the same time a “great economy” – a transformation illustrated by the rise of the USA and the relative weakening of the Tsarist Empire.’⁷⁹ The second was that, in so far as states aligned their interests with those of capital, they were marrying a spatially delimited (territorial) form of power to a social relation the characteristic feature of which, Hobsbawm suggests, ‘is precisely that it has no limit.’⁸⁰ For Hobsbawm and for the earlier generation of theorists of imperialism mentioned above, these developments tied states into processes by which corporations and cartels divided and re-divided world markets. For Lenin and Hilferding, although these divisions and redivisions, in both the economic and political spheres, occur peacefully and through cooperation between parties at certain times and places, their emphasis – especially for Lenin – was on the tendency of such processes to spill over into conflict and war.⁸¹ Indeed, their theories were above all attempts to theorise the interlacing of economic and geopolitical competition, as evinced in the First World War, in terms of the contemporary ‘stage’ of capitalism.

77 Callinicos, 1991, p. 8.

78 Bukharin, 1987, p. 76.

79 Hobsbawm, 1987, p. 317.

80 Hobsbawm, 1987, p. 318.

81 On this point Bukharin’s emphasis is heavily – no doubt too heavily – on the tendency to conflict.

It is little wonder that stadial analyses of capitalism began to be developed and elaborated at this time. For the received categories in which capitalism had been theorised by earlier generations bore only the slimmest relation to the actually existing capitalisms of the age. Already at the end of the nineteenth century Luxemburg was able to describe how the development of capitalism was modifying the nature of the state: 'widening its sphere of action, constantly imposing on it new functions [...] making more and more necessary its intervention and control in society.'⁸² This tendency reached a peak when the First World War, in Trotsky's words, 'severed' the world economy 'at its roots'.⁸³ State control of national economies, in the declared interest of maximising production and coordinating the war effort, became the new norm. The states of the warring countries actively intervened in the control of labour. They organised the importation and distribution of raw materials and foodstuffs, and ordered factories to produce certain goods. They fixed prices, determined profits, and took direct control of transport, foreign control, and other 'strategic sectors' such as coal, railways and arms – confiscating private firms if this was deemed in the war interest. Such phenomena prompted Bukharin to argue that war had forced 'the bourgeoisie to adopt a new form of capitalism, to place production and distribution under state power'.⁸⁴ This new phase, he argued, involved the conversion of national economies into 'state-capitalist trusts,' 'new Leviathan[s] beside which the fantasy of Thomas Hobbes appears as a child's toy.'⁸⁵ Although Bukharin overemphasised the tendency towards state capitalist formations, his insight that these were more than temporary war-time expedients was, in the light of the experience of the 1930s, prescient indeed.

82 Luxemburg, 1989, p. 43.

83 In Day, 1981, p. 50.

84 Bukharin, 1987, p. 155.

85 In Day, 1981, p. 35.

2. War Economies in a De-globalising World

In the last chapter an argument was developed concerning the nature of competition and of the relations between states and businesses in capitalist society. Against those who posit the economic and political as separate spheres of society it was argued that this institutional separation is a product of an underlying unity: it is the quintessentially *capitalist* relations between wage labour and capital that enable surplus extraction to be reconstituted as a private activity (as 'economics') and political power to be redefined as a public communal space. While recognising the prising apart of 'politics' and 'economics' as a basic structural trend of modernity, it was argued that capitalist states are drawn to intervene more or less directly in economic processes, as a result of their 'form-determined' role in maintaining the framework for capital accumulation and the need for state-building that this role entails, as well as due to their general dependence upon processes of accumulation.⁸⁶ Even in liberal states, where the formal separation between the spheres is strongly institutionalised, it makes little sense to describe the actual relations between classes within the private sphere as 'non-political'; conversely, a distinctly 'economic' element is clearly present in the dealings of state with society.

This line of argument was introduced at an abstract level but was applied to the world economy and states system of the early twentieth century through an exposition of the views of a number of contemporaneous Marxist theorists. These drew attention to the impact of the concentration and centralisation of capital upon the structure of business, to the tendencies for market coordination to be supplemented by planned coordination, for trade and capital to internationalise and for states to involve themselves directly in economic relations (domestic and international). As a result of these developments, they proposed, economic competition and bargaining in the world economy was becoming increasingly bound up with inter-state competition and the structure of the world political order. A new 'stage' of capitalism was emerging. Small firms and proprietorial ownership were being elbowed aside by joint stock companies with their enormous market power. Competitive capitalism within national boundaries was being supplemented and to some extent replaced by monopolies, cartels and coordination by banks and states. British hegemony and an international free-trade regime was being succeeded by resurgent protectionism within a multi-polar world order. If the late nineteenth century saw the rapid evolution of a new and global stage of capitalism, however, the exigencies of competition were experienced in sharply divergent ways in different parts of the system. By binding ever more economically and culturally heterogeneous regions of the world into an integrated nexus of commercial and geopolitical competition, capitalism intensifies the experience of difference even as it connects. States and firms in different countries are compelled to refer to prevailing world conditions ever more closely and to tailor their strategies accordingly. In the late nineteenth century, for example, Britain's was to rely on the cushion of empire,

⁸⁶ Much ink has been spilt over questions of whether capital enjoys a privileged influence over modern states for instrumentalist reasons (that capitalists are, by dint of their economic and cultural capital, better equipped to influence policy), because of the threat of investment strikes or flight, or due to the form-determined bias (or 'structural selectivity') of the state in capitalist society. For our present purposes these debates are not relevant, but for a summary see Jessop, 1990, esp. pp. 145–8.

whereas innovations in the pooling of capital through banking and the joint stock company were at the heart of the successful attempts by US and German firms to out-compete their British rivals. In 'late, late' industrialising countries such as Russia and Japan, meanwhile, the state took a central role in instituting land reform, marshalling resources, and concentrating capital – in Russia, as Trotsky put it, capitalism even 'seemed to be an offspring of the State'.⁸⁷

The flow and ebb of a revolutionary wave

In Trotsky's analysis, the influence and pressure of advanced Western capitalism upon backward Russia gave rise to distinctive social structures. Rapid urbanisation around gigantic enterprises that employed tens of thousands of workers laid fertile soil for industrial conflict and radical political movements. State-led industrialisation, funded to a considerable degree from abroad, did not create propitious conditions for the bourgeoisie to exert hegemony. For its part, the repressive state, although able to clamp down on discontent in times of peace, proved too weak to simultaneously beat back military attack and hold down strikes and political protest. The outcome, a series of mass uprisings and revolutions from 1905 to the overthrow of tsarism in February 1917 and culminating in the transfer of power to the soviets in October of that year, was in its general lines predicted by Trotsky's theory. That socialist revolution could occur in Russia was, as Victor Serge has summed up the case, in part due to the 'intransigence' of the Bolsheviks but also

because the system here was weakest [...], because the socialist revolution benefited from a bourgeois revolution which, though necessary, was feeble and tardy, unable to complete itself; because on the ruins of the tsarist regime the Russian proletariat found itself faced only with an inexperienced, disarmed bourgeoisie[.]⁸⁸

These very same factors, however, that account for the occurrence of the revolution also determined the fragility of the regime to which it gave rise. If the weakness of the middle classes and the military defeats incurred by the Tsarist armies were both, ultimately, consequences of Russia's retarded development, these same factors conditioned the difficulties confronted by the revolutionary regime: the relatively small working class, low living standards, poorly developed economic and cultural infrastructures, and a military that was scantily equipped in comparison to the Western forces that invaded in 1918–21. Herein lies, of course, a familiar and much-discussed paradox of the Russian revolution: that a movement which perceived itself as the inheritor of *modern* goals and values – liberté, égalité, fraternité, participatory democracy, conscious control over nature and society, and an affirmation of the multifaceted creativity of human beings – should come to power in an economically backward land. Given that the Bolsheviks in government were keenly aware of this paradoxical circumstance, what explains their belief that communist transformation – based upon the supposition that, *in conditions of affluence*, principles of direct democracy could be realised in all spheres of society – could grow from such stony soil?

87 Trotsky, 1962, p. 173.

88 Serge, 1992, pp. 373–4

Answers to this question fall into several broad groups. At one extreme is the view that communist values were a convenient fiction, that the Bolsheviks recognised the recklessness of pursuing a socialist agenda prematurely. Dmitri Volkogonov, in his almost comically dogmatic presentation of this thesis, has asserted that 'Lenin must have known the Mensheviks were right when they said in 1917 that Russia was not ripe for socialist revolution.'⁸⁹ Despite this recognition Lenin pressed ahead regardless, impelled simply by the desire 'for his own party to seize power'. In this view, fine ideals were wilfully thrown aside in favour of a new order based upon 'lawlessness, arbitrary rule and violence.'⁹⁰ More common is the view that the long-term goals of communism were genuinely held but that these, given the realities of human nature or geopolitical competition, are inherently utopian and were inevitably trumped and negated by the short-term exigencies of seizing and holding power. The 'logic of their claim to state power,' in Theda Skocpol's version of the argument, led the Bolsheviks to renege on Lenin's 'vision of a proletarian regime in which [...] all of the people would govern directly through job rotation and elected and recallable representatives.'⁹¹ For the defence of state power in a hostile world depended upon an industrialisation drive that necessarily undermined the conditions in which the normative goals of the revolution could flourish. 'The Bolsheviks promised egalitarianism and freedom,' as Seweryn Bialer has put it, but swift modernisation 'required harsh authority, glaring inequality, and ruthless mobilization of resources.'⁹²

In contrast to most interpretations, for which class society is either the natural form of human existence or the only one that can be seriously contemplated, a third approach shares the Bolsheviks' belief in communism as a real historical possibility but views their attempt to realise it as premature. The classic text here is N. N. Sukhanov's *The Russian Revolution 1917*, in which socialist aims and principles are defended but in the context of a vigorous critique of the Bolshevik strategy. The Bolsheviks were, Sukhanov argues, acting

against the working class, when by way of an insurrection, under the slogan of 'Power to the Soviets' they attempted to hand over to their own central committee the totality of state power in Russia. The power of a single isolated proletarian vanguard, though it was based on the confidence of millions of the masses, obliged the new government and the Bolsheviks themselves to perform tasks they knew to be beyond their strength.⁹³

The degeneration of the revolution here appears as tragedy, in a rich sense of the term: the descent of a people into misery due not to their leaders' vices but their misreading of the historical conjuncture.

These perspectives are the dominant ones but they do not exhaust the field. An alternative is to see the Bolsheviks' strategy as they themselves did: as a wager, with uncertain but by no means impossible odds, that successful revolutions in Europe and elsewhere would enable the two agendas of 'modernisation' – socialist democracy as well as progress in productive technique – to run together. The gamble was that workers in the West would rise up. Thus, just as Russian industry under the Tsar and the provisional

89 Volkogonov, 1994, p. 67.

90 Volkogonov, 1994, p. 448.

91 Skocpol, 1979, p. 215.

92 Bialer, 1986, p. 4.

93 Sukhanov, 1955, p. 571.

government was heavily reliant upon foreign loans, so the Russian revolutionaries were keenly aware of the dependence of their strategy upon support from abroad. The coordinates of revolution in western Europe, however, were rather different to those of Russia. Whereas in the latter, the paradox of the revolution was that the same material factors that enabled its occurrence also determined its weaknesses, the situation in western Europe was in crucial respects the other way about. In December 1918 Lenin framed the issue in these terms: 'It was far harder for [western Europeans] to begin the revolution, because they had to take on not a rotten autocracy but a culturally advanced and highly united capitalist class.'⁹⁴ However, he continued, referring no doubt to recent reports of mass mutinies and the establishment of revolutionary soldiers' and workers' councils in Germany,

You are also aware that the transformation has begun, that it has gone beyond the frontiers of Russia, that the proletariat of the advanced countries of western Europe – our chief hope, and the chief support for our own and for world revolution – has begun to move.

Knowing as we do that the Russian revolution remained isolated, these words can seem to have a utopian or even plaintive ring about them. Yet in the years 1918–20, with revolutions toppling regimes from Vladivostok to the Rhine and radical movements breaking out across the globe, the hopes of the embattled Bolsheviks did not seem unrealistic. A wave of mass political strikes and anti-war demonstrations swept central Europe, spreading via Budapest to Germany and culminating in the mutiny of the Austro-Hungarian navy. In Germany, in November and December 1918, with the old order collapsing and the councils movement spreading 'like an avalanche' from city to city, it seemed as if 'Germany was well set on the road towards some kind of socialism, towards a state under the influence of the workers' and soldiers' councils.'⁹⁵ The next year witnessed the establishment of 'soviet republics' in Bavaria and Hungary, plus, even in Britain, an enormous and highly politicised wave of strikes by workers, police and soldiers. In 1920 the resistance to the Kapp putsch in Germany threatened to do to the social democratic government what the movement against Kornilov had done to Kerensky's in Russia. Meanwhile, revolutionary movements had arisen in Italy and Spain; "'Soviets" were formed in Cuba where few knew where Russia was'; and radical student movements erupted in Beijing and across Latin America.⁹⁶

From this perspective too, the period is a tragic one but for entirely different reasons. The 'character flaw' in this scenario was not the rash eagerness of the Russian socialists to overplay what was a patently inadequate hand but the inhibitions and in many cases organised hostility of their former brethren in the parties of the Second International. As the world-revolutionary wave ebbed over the course of the 1920s, in part thanks to their actions, the inherent difficulties faced by a revolution in a backward country were crystallised and intensified. Military invasion, economic embargo, and capital flight combined with the consequences of civil war to reduce economic output to less than one third of its pre-war level.⁹⁷ War and disease cut swathes through the population. A governing party based within what had in any case been a relatively small working class could now but look on as the industrial workforce slumped. Taking the 1917

94 Lenin, 1980, vol. 28, p. 352.

95 F. L. Carsten, 1972, p. 40.

96 Hobsbawm, 1995, p. 65.

97 Nove, 1992, p. 62.

figure as 100, it fell to 21–25 per cent in 1919, and even three years later had only crawled back to 31 per cent.⁹⁸ Already by 1920, having lost its coalition partner (the Left Social Revolutionaries) early on, with the working class in a state of dissolution and the factory committees atrophying, the Bolshevik Party found itself in an increasingly isolated position within Russian society. Had one of the several revolutionary situations that occurred elsewhere in this period been carried to a socialist conclusion, the strategy of holding power in order to preserve the republic as a beacon and organising centre of worldwide revolution would have received vindication. It could, ultimately, have represented a practical test of the Marxist argument that the spread of socialist revolution would enable alternative, non-national structures to replace capitalism and its states system. As it was, the curtain slowly fell on prospects of revolution abroad, the final acts being the stabilisation of Germany from 1924 and the crushing of communist-led uprisings in China of 1926–7. The dilemma that Lenin had posed in 1919 did not disappear but grew ever starker:

We are living not merely in a state, but *in a system of states*, and it is inconceivable for the Soviet Republic to live alongside the imperialist states for any length of time. One or other must triumph in the end.⁹⁹

War communism as state capitalism?

In the initial post-revolutionary years, the Soviet economy can be described in terms of its inherited material conditions and social relations, as overdetermined by two major phenomena. One of these was war. Production plummeted as a result of the destruction wreaked upon the population and industry, not to mention territorial losses, in the wars of 1914–21. Economic policy was indistinguishable from the state-led drive to requisition every available resource for the military effort. The second was revolution. At one level the revolutions of 1917 and the policies that issued from them comprised a series of measures that were not in themselves socialist: the overthrow of autocracy, land seizures by peasants, and the nationalisation of a number of industries. With the exception of the brief period of ‘War Communism,’ in which sections of the Communist Party interpreted nationalisation and requisitioning as signs of socialist transformation,¹⁰⁰ it was taken for granted that the bulk of economic intercourse continued to operate along essentially capitalist lines, regardless of whether enterprises and farms were owned by private individuals or the state. Had the Bolsheviks therefore deluded themselves when, in adopting Trotsky’s theory of permanent revolution, they predicted that revolution in Russia, if led by working-class parties, would not halt with a bourgeois settlement but proceed with a socialist agenda? A case has been made, by Charles Bettelheim and his co-thinkers (notably Paresh Chattopadhyay) that the social content of the revolution did in fact amount to little more than the replacement of one form of capitalism by another. A recent book that

98 According to estimates in Haynes, 2002, p. 51.

99 In Callinicos, 1991, p. 31.

100 Bolshevik leaders in this period, writes Tony Cliff (1990, p. 179), ‘again and again made a virtue out of necessity. Lenin and Trotsky argued that the labour armies were an indispensable feature of socialism. Similarly, Bukharin extolled the runaway inflation and devaluation of money as a precursor of a true communist economy without money. The series of war measures – egalitarianism, a result of general destitution – as well as the suppression of the market and the strengthening of militarisation in the economy and society, were described as measures of the direct transition to real communism.’

expounds this view, by Stephen Resnick and Richard Wolff, proposes specifically that in taking control of a range of private enterprises the Bolshevik regime

changed their functioning in many ways. *But it did not transform the way those enterprises organized the production, appropriation, and distribution of their surplus labor.* The Soviet state [...] delegated state officials to replace both private individual capitalists and private corporate boards of directors. The personnel changed (no doubt a significant event), but the exploitative juxtaposition of producers vis-à-vis appropriators of surplus labor did not.¹⁰¹

Resnick and Wolff base their argument upon a distinction between communism, a society 'in which the producers and appropriators are the same people,' and capitalism, where 'the appropriators are different people from the producers,' with the latter being 'doubly free': compelled by their 'freedom from' property to sell their labour power but also 'at least nominally free [...] to choose how, when, and for whom they work'.¹⁰² This conceptual distinction, applied to post-revolutionary Russia, reveals a society divided between a class of appropriators (state officials, entrepreneurs and wealthy farmers), and workers in industry and agriculture, alongside an 'ancient' peasant stratum.

Although sensitive to the economic complexities of post-revolutionary Russia, Resnick and Wolff's theory shows a curious myopia in regard to the *political* history of the period, and in particular to the interaction between the socialist commitments of the 'appropriators' and the dynamics of the Russian economy. An indication of what is more commonly considered to be the basic *anti-capitalist* intentions of the Bolsheviks is given by Resnick and Wolff, apparently without consideration for the problems it poses for their schema, in an illuminating passage dealing with the contradictions faced by the regime in the period of 'War Communism':

Beyond winning the wars they faced and achieving basic survival, the Bolsheviks also sought to achieve a successful socialism. Three indices of success dominated their thinking: [...] the capital labor ratio, the absolute number of productive state workers in industry [and a] steady rise in the real wages of industrial workers.¹⁰³

The goals of production as pursued by the state through its control over finance and nationalised industry and its ability to tax private producers were determined both by military competition against the Whites and their allies *and* the commitment to improve living standards of workers and the peasantry. This latter was, surely, determined by the regime's roots in the labour movement coupled with its overall strategy of encouraging revolutionary movements elsewhere. In this respect, the fact that the administrative personnel that issued priorities to state industry had changed was indeed, more than Resnick and Wolff realise, 'a significant event'. For, although it is undeniable that the exigencies of war and economic collapse placed immense obstacles in the path of socialist reforms – the shutting down of experiments in factory control and of militia structures in the army are among the many examples that testify to this – an acceptance and to a certain extent internalisation of the exigencies of war nevertheless co-existed with a commitment to egalitarian values that was reflected at the policy level in the prioritisation of improving the living standards of workers and the poor. As Trotsky put it, 'a socialist advance ceases to be such if it does not

101 Resnick & Wolff, 2002, p. 162.

102 Resnick & Wolff, 2002, pp. xi, 90.

103 Resnick & Wolff, 2002, p. 174.

uninterruptedly, openly and tangibly improve the material position of the working class in its daily life.’¹⁰⁴ Although in conditions of economic collapse the degree of ‘socialist advance’ was hardly impressive, as a general strategy orientation these ideas were taken seriously. Resnick and Wolff themselves concede, for example, that

it became nigh impossible for the Bolsheviks to purchase less of food and raw materials for state capitalist industry. To have done so would have compromised one or more of their socialist success indices: decreasing the number of industrial workers, the use of raw materials per industrial worker [...] or the real wages of workers.¹⁰⁵

As this quote indicates, the priorities of the Soviet state in the civil war period evinced an uneasy balance between accumulation and consumption, reflecting the institutionalisation of socialist values but also the weakness and isolation of the regime and the dangers posed by hostile states. Even in the subsequent period of the ‘New Economic Policy’ (NEP) workers, although now entirely displaced from political power and despite growing social differentiation, remained ‘the regime’s favourites,’ in Moshe Lewin’s phrase, enjoying an improving standard of living and preferential treatment in access to public services.¹⁰⁶ This suggests that the ‘goals of production’ in both agriculture and industry reflected contradictory pressures. Soviet society in the decade after the revolution resists clear-cut definitions (such as ‘socialist’ or ‘state capitalist’) but appears rather as an unstable form, a hybrid society comprising primitive peasant production and state capitalist industry presided over by a party-state that had been forged by radical movements of workers and peasants.

The prospect of imminent war

The story of the degeneration of the Russian revolution has been told many times, and need only be summarised here. Suffice to say, war, disease, poverty, and famine did their worst; the economy collapsed and the working class dwindled; the democracy of the soviets expired, giving way to a one-party state; and ever greater decision-making power was concentrated in the state and party bureaucracies. The civil war of 1918–21, as Moshe Lewin describes,

caused a deep setback in the country’s development. Not only was its economy a shambles at the beginning of the NEP in 1921, but its cities were depleted, its bourgeoisie destroyed, and [...] the working class was severely weakened. [...] It was as if most of the fruits of social and economic development Russia experienced since 1861 were wiped out and its culture, spiritual and political, had retreated to some earlier primitive stage[.]¹⁰⁷

Meanwhile the nature of the Communist Party changed. As the working class was whittled away, the ranks of the party were swelled by the officials upon whom it increasingly relied. ‘The old revolutionary organization of political intellectuals and politically active workers,’ in Lewin’s account, ‘was steadily being

104 Haynes, 2002, p. 73.

105 Resnick & Wolff, 2002, p. 174.

106 Lewin, 1985, p. 247.

107 Lewin, 1985, p. 296.

eliminated, and a “secretarial machinery,” reflecting the impact of civil war and NEP recruits on the social composition of the party, was coming into the ascendant.’ As a result, ‘bolshevism acquired a social basis it did not want and did not immediately recognize: bureaucracy.’¹⁰⁸ Even as late as 1921 Lenin was still able to insist that ‘[w]hat we actually have is a workers’ state,’ but felt obliged to refer to two ‘peculiarities,’ qualifications that all but cancel out the positive assertion: ‘firstly, that it is not the working class but the peasant population that predominates in this country, and, secondly, that it is a workers’ state with bureaucratic distortions.’¹⁰⁹ In fact, as Chris Harman has reflected,

The real situation was even worse than this. It was not just the case that the old Bolsheviks were in a situation where the combined strength of hostile class forces and bureaucratic inertness made their socialist aspirations difficult to realise. These aspirations themselves could not remain forever uncorrupted by the hostile environment.¹¹⁰

The regime found itself not simply weakened but hollowed out from within. Increasingly alienated from the working class, much of the Communist Party began to lean towards those forces which recommended the strengthening of private capitalism in agriculture (reflected within the Communist Party in Bukharin’s ‘right opposition’) or towards those, notably within the party and state bureaucracies, which advocated the build-up of state power and industry as ends in themselves (Stalin’s ‘centre’ faction). Trotsky’s ‘left opposition’ remained a significant force until the late 1920s. Its policies centred on spreading the revolution internationally, criticizing bureaucratisation, promoting industrialisation (to be funded by taxation of those layers, rural and urban, that had benefited disproportionately under the NEP), and participating more intensively in the world economy. Its supporters, however, found themselves ousted from senior positions in party and state as the decade drew to a close.

As the ‘right’ and ‘centre’ consolidated their position within the Communist Party, the term socialism experienced what was unquestionably the most dramatic of the many reinterpretations to which it has been subjected in its turbulent career. It now came to denote *national* economic development – or ‘socialism in one country,’ to use Bukharin’s phrase. It was a redefinition that signalled a new policy agenda: ‘that Russia was preparing to industrialize, to become strong and powerful,’ as Sheila Fitzpatrick has put it; that national modernisation and not international revolution was now the primary objective of the Communist Party.¹¹¹ However, if the new policy was to prioritise the survival and develop the power of the USSR as a relatively autarkic national economy, this was no less tied to external forces than had been the previous, internationalist strategy. In a world dominated by advanced concentrations of capital, as Nigel Harris explains, the

accumulation of capital in conditions of national backwardness imposes a division of labour independently of the wishes of the participants, the more so, the more urgent the need to accumulate – in Russia’s case, in order to catch up with its foreign rivals.¹¹²

108 Lewin, 1985, pp. 213, 261.

109 Callinicos, 1991, p. 27.

110 Harman, 1987, p. 23.

111 Fitzpatrick, 1984, p. 105.

112 Harris, 1978, pp. 271.

The task of catching up, moreover, was no more straightforward than it had been in Count Witte's time. Quite the opposite. Whereas economies elsewhere had recovered from the First World War, invested and grown over the course of the 1920s, in the USSR the consequences of civil war and revolution had produced an extremely adverse set of circumstances for accumulation. Revolution and the large-scale seizure of land by peasants, within an overall context of scarcity, had resulted in a relative equalisation of incomes, a high rate of consumption and a meagre savings ratio. The new regime inherited a peasantry that had, with the Bolsheviks' encouragement, eliminated a good part of Stolypin's agrarian reforms, curtailed its internal inequalities, improved its living standards and social status, and sharply reduced the part of its produce supplied to markets.¹¹³ The scarcity of investable surplus was exacerbated by the absence of foreign capital and technology that had been so central to industrialisation under tsarism. The Communist Party had, in short, been swept to power by social movements that had since dissolved away but whose legacy was a land unfit for accumulation. The prospect was of further relative decline or even military invasion by a stronger power.

If the emergent strategic goal of 'national modernisation' was to face any serious chance of success, therefore, the obstacles to rapid capital accumulation, above all the legacy of the 1917 revolutions as embodied in the control of land by the peasantry and in the Communist Party's commitment to raising workers' living standards, would have to be overcome. In his indispensable account of the period, the Czech historian Michal Reiman has shown that the destruction of this twin legacy, although a necessary consequence of the policies of Stalin's 'centre,' was not planned in advance. 'It is doubtful,' he writes, 'that Stalin consciously intended to create the social and state system so inseparably associated with his name'.¹¹⁴ Rather, the new system arose in an unpremeditated manner, as the emerging strategy of sections of the *nomenklatura* linked to Stalin – industrialisation and state-building – encountered and responded to a matrix of interconnected crises that arose towards the end of the 1920s, beginning in 1927.

The crises of that year occurred in several different fields: international relations, the economy, discontent of workers and peasants, and the chafing of non-Russian republics. In international relations, concern for the USSR's security grew into full-blown war fever when the crushing of the most militant section of the Chinese labour movement by Moscow's supposed ally, Jiang Jieshi,¹¹⁵ was followed by Britain's abrogation of trade agreements and diplomatic relations and compounded by a series of attacks on Soviet personnel in Poland, Germany, and China. The panic buying and hoarding that the war scare provoked served to exacerbate food shortages that were in any case approaching crisis proportions as government procurements of grain dwindled. By the end of the year the country was sliding rapidly into a deep economic crisis. This, in turn, adversely affected all layers of the population.¹¹⁶ Peasants faced increases in taxation and the widespread requisitioning of grain by force. Workers and the unemployed saw their wages and benefits fall. Severe social tensions ensued, and found a variety of expressions: a sharp increase in labour unrest, together with growing activity by the left opposition within working class

113 Lewin, 1985, p. 298.

114 Quoted in Gluckstein, 1994, p. 215.

115 Jieshi, in the non-pinyin transliteration, is Chiang Kai-shek.

116 For a detailed account, cf. Reiman, ch. 4.

districts and the army; a wave of disturbances in the countryside including attacks on officials and some 150 peasant revolts; an upsurge in nationalist sentiment in Georgia and the Ukraine; and the reappearance of anti-semitism.¹¹⁷

The unconfident reactions of the Communist Party leadership around Stalin to the multiple crises of 1927 betrayed a lack of any long-term conception as to how the mounting difficulties could be tackled. Policymakers were reduced to reacting to dire problems with short-term expedients. Nonetheless, the measures taken in this period indicate in their general direction a very clear set of underlying priorities. The first and most important of these was the assumption that external invasion threatened once again. In contrast to the 1918–20 period, however, these fears occurred within an international context marked by a string of defeats suffered by parties of the Comintern, most recently in China. ‘With increasing urgency,’ Reiman has shown,

demands were made for the quickest possible strengthening of the army and the defensive capacity of the Soviet state in general, for a reorientation of the economy and social relations toward a perspective of imminent war, and for more intensive industrialisation.¹¹⁸

The imperative of national defence thus connected with a second priority, industrialisation. Even in 1926–8 the *pace* of industrialisation, measured against the meagre surplus released from agriculture, was intense – or even, as Bukharin saw it, excessive. By the unbending yardsticks of modern warfare, however, its *level* remained totally inadequate. The New Economic Policy – of encouraging the transfer of agricultural surplus to industry through market mechanisms – had run into difficulties due to the rudimentary state of market relations in the countryside, combined with a ‘goods famine’: the scarcity of industrial goods available for which peasants could exchange their produce. Opting to prioritise preparations for war, therefore, radically constrained the policy options available to tackle the crisis in agriculture, in particular with regard to the ‘procurements’ problem. The growing conviction of sections of the Communist Party around Stalin that rapid industrialisation was required at any cost explains why resort was made, in 1927–8, to *forced* procurements of grain, and why brute repression was meted out to those who resisted (and, notoriously, to many who did not as well).

By way of these haphazard responses to short-term crises, the faction around Stalin stumbled upon what became their defining cause: forced industrialisation, with the aim of building up the state’s military capabilities, to be pursued by the subjugation of the peasantry and the working class. It required, therefore, the sidelining and eventual routing of those political forces that championed the interests of private agriculture and the working class, notably the left and right oppositions within the Communist Party. It was here, in the concatenation of repressive moves that flowed from the imperative to industrialise, that the distinctive structures of Stalinist rule began to take shape. As the war scare reached a critical point and the British Conservative government broke off relations with the USSR, Stalin began to portray opposition as a direct attack, even ‘crusade,’ against communism. ‘Some threaten the party with war and intervention,’ he declared, ‘others with a split. There comes into being something like a united front from Chamberlain to

¹¹⁷ Reiman, 1987, chs. 3–5. On the revival of the left opposition see also Ciliga, 1940, p. 34.

Trotsky'.¹¹⁹ Such invocations of an external threat began to be deployed wholesale as a pretext to justify internal repression – against peasants resisting requisitioning and collectivisation, against labour unrest, and against opposition within the party. Groups that resisted were branded enemies of the state. Myths were concocted in order to threaten and cajole, to turn the population against the enemy within: the 'kulak menace,' the 'saboteur in foreign pay,' the 'right-wing appeaser,' the 'Trotskyist,' and the numerous other stock evildoers of the Stalinist imaginary. Intellectual freedoms were withdrawn, uncontrolled initiatives and dissent suppressed; all spheres of life were subordinated to the centralised party-state authority. With the opposition factions suppressed, and their leaders pressed to capitulate to Stalin or driven into exile, the Communist Party became a monolithic organisation, headed by an absolute leader around whom a cult of personality was built. In short, as Lewin describes, in the 1927–9 period Stalin succeeded in 'consolidating his position and forging the weapons of domination which would henceforth become an integral part of what came to be known as Stalinism.'¹²⁰

The distinctively Stalinist form of state and economy that emerged in the late 1920s was not consciously crafted. Rather, its development was characterised, as Lewin describes it, 'by a continual process of "sliding," as it were, toward the objectives in question, while the latter were continually being enlarged.'¹²¹ A good illustration of this process of 'sliding' towards 'expanding' goals is provided by Stalin's policies towards the peasantry. The heavy-handed and often arbitrarily-enforced procurements of grain in 1927–8 marked, in Alec Nove's words, 'a great turning-point in Russian history,' for two main reasons. First, '[i]t upset once and for all the delicate psychological balance upon which the relations between party and peasants rested,' and, second, it was 'the first time that a major policy departure was undertaken by Stalin personally, without even the pretence of a central committee or politburo decision.'¹²² The forcible procurements, however, did little to ease the economic crisis. For one thing, the introduction of the first five-year plan led to soaring demands for funds to invest in industry and feed the growing urban workforce. For another, forced procurements were a highly inefficient means of taxing the peasantry. A perfectly logical response for the *muzhik* was to sow less grain, or to use it as fodder for animals – for animal products fetched better prices than grain. Despite the almost militaristic methods used to raise tribute from the land, therefore, grain procurements in 1928–9 were actually down on 1927–8, which had itself been an emergency year. During 1929 the crisis rippled through all sectors of the economy. 'Rationing of consumers in cities,' Alec Nove has written, 'was introduced gradually during 1928 in some areas and became general early in 1929, perhaps the first and only recorded instance of the *introduction* of rationing in time of peace.'¹²³

It is at this point that the logic of 'sliding towards expanding goals' accelerated. Renewed signs of economic crisis, as Lewin describes,

118 Reiman, 1987, p. 13.

119 In Cliff, 1991, p. 228.

120 Lewin, 1985, p. 99.

121 Lewin, 1985, p. 110.

122 Nove, 1992, p. 152.

123 Nove, 1992, p. 155.

swung the government into a complete reshaping of its relations with the peasantry. The first five-year plan, with its ambitious targets and insatiable pressures for ever more investment resources, had just been launched and was becoming a huge national effort on an unprecedented scale. The countryside, if not properly controlled and mastered, could wreck the whole effort: such was clearly the conclusion drawn by some of the key leaders from the "grain crisis" and the continuing difficulties thereafter.¹²⁴

Industrialisation targets were revised upwards, as signalled by the famous motto of the 1928 central committee meeting: 'Overtake and Pass' (the West). The sharply raised targets would have represented mere wishful thinking, however, if the state's relationship to agriculture had remained purely parasitic, based upon the largely coercive appropriation of surplus from a peasantry which, to a considerable degree, still owned and controlled the means of production. For industrial production to be maximised, one of two agrarian transformations was therefore required. Either a functioning market economy would commodify agrarian relations, give rise to a differentiated class structure, and thereby encourage richer peasants to improve productivity, hire labourers, and exchange surplus crops for goods produced in the towns, or the state would have to take over the ownership and control of the land. The former was barely viable, as the crises of the NEP had demonstrated. Rapid modernisation in backward Russia could not be accomplished by market mechanisms. Instead, Stalin began to implement the latter, historically unprecedented, course. In 1929 the limited and short-term expedient of forcible requisitioning gave way to a much-expanded and long-term goal: the imposition of ownership *and continual operational control* over agriculture by the state.

A country at war

The 1929–32 period witnessed 'the unleashing of massive political and social conflict on a scale rarely seen in history'.¹²⁵ 'In a matter of a few years,' as Lewin describes, 'much of the previous social fabric, tsarist and Soviet, was dispersed and destroyed. With the destruction came the creation of new patterns, which, although they emerged very rapidly, became permanent.'¹²⁶ Such was the pace and violence of the changes that the period is commonly referred to as a 'revolution from above'.¹²⁷ Alternatively, as Sheila Fitzpatrick points out, describing the nature of the period calls for use of 'the imagery of war.' The country, she continues, was caught up in a 'psychological state of war emergency [that] began with the great war scare of 1927,' and which quickly became entrenched in the forms of 'a war against Russia's backwardness, and at the same time a war against the proletariat's class enemies inside and outside the country.'¹²⁸

If *nomenklatura* is substituted for 'proletariat,' this description captures very well the dual nature of 'Stalin's revolution.' In one sense it was a 'passive revolution,' in which Stalin played a 'modernising' role in the tradition of Bismarck, Cavour and Witte; the Soviet leadership became dominated by an oppressive awareness of having fallen behind more developed rivals, impatient to catch up. Stalin famously appealed

124 Lewin, 1985, p. 144.

125 Rutland, 1985, p. 75.

126 Lewin, 1985, p. 209.

127 Tucker, 1977; also Reiman, 1987; Rutland, 1985; Fitzpatrick, 1984.

128 Fitzpatrick, 1984, p. 110.

to his party in 1931, 'We are fifty or a hundred years behind the advanced countries. We must catch up this distance in ten years. Either we do it or we go under.' However, for the sort of exploitation rate required for this ambitious undertaking to succeed, the restraints within workplaces and farming communities that had been strengthened in 1917 and still remained in residual forms a decade later would have to be abolished. With this as a paramount aim, Stalin's industrialisation drive was very much a *counter-revolution*, in which civil liberties and intellectual freedoms were stamped out, workers' organisations completely subordinated to the party-state, and oppositionists sidelined, exiled or murdered. One is tempted to compare Stalin's campaigns with those of Cavour and Mussolini rolled into one, but even this disagreeable image fails to do justice to the Soviet dictator. For his major 'achievement,' the deployment of state power to effect the proletarianisation of the agricultural labour force in a compressed period of time, although anticipated by analogous processes in western Europe, was without historical antecedent in its scale and speed.

The collectivisation of agriculture involved an extreme projection of political power into the economic realm to enable the expropriation by the state of all major means of agricultural production. A traditional agricultural arrangement consisting largely of petty production – involving market relations but a considerable element of self-sufficiency – was, within a matter of years, subordinated to a single landlord. This was no feudal fusion of economics and politics. Rather, it involved the sundering of peasants and their means of production into absolute property, on the one hand, and a proletariat, on the other.¹²⁹ No longer did the state need to batten upon the peasantry – the typical method of appropriating agricultural surplus of its pre-modern ancestors. Rather, it inserted itself between the means of production and the agricultural labour force, declaring itself owner of the former, very much in the capitalist manner. The peasantry, for its part, was thrust *en masse* onto the labour market (or into the Gulag).

Collectivisation formed the centrepiece of a transformation of the Soviet economy, society and state that is stupefying in its dimensions. Whereas in 1928 individual peasant farmers comprised over 75 per cent of the population, a decade later that figure had been slashed to 2.6 per cent.¹³⁰ The state's success in taking control of agricultural *production and distribution* permitted it to exploit the countryside in a manner that was qualitatively different and – by its lights superior to – traditional forms of tribute-taking. In 1928–32 agricultural output declined, as peasants cut down their sowing and slaughtered livestock for their own consumption or due to lack of fodder, and yet deliveries for industry and the urban population in the same period were doubled, and sales of grain on foreign markets grew fifty-six fold.¹³¹ By 1937 the state was taking fully 36.7 per cent of the grain harvest, up from 14.7 per cent in 1928.¹³² As the peasantry was starved, millions migrated to the cities. During the first five-year plan alone, the population of the cities exploded by 44 per cent, almost as much as in the far longer span of 1897–1926.¹³³ The proportion of

129 The result was an effective coincidence of 'the twin economic powers' described in chapter one: the Stalinist state exerted direct control over the labour process as well as control over the goals of production and the appropriation of surplus labour.

130 Rutland, 1985, p. 86.

131 Reiman, 1987; Haynes, 2002, p. 91; Callinicos, 1991, p. 32.

132 Mazower, 1998, p. 121.

133 Lewin, 1985, p. 219.

‘workers and employees’ in Soviet society soared from 18 per cent in the late 1920s to almost 50 per cent a decade later.¹³⁴

At first sight these figures would appear to indicate a triumph of city over countryside. Historians of the Soviet working class, however, show that, if anything, it was workers who bore the brunt of the industrialisation drive.¹³⁵ The clearest index of this, real wages, shows a catastrophic decline between 1928 and 1932 – by 50–57 per cent according to Western estimates.¹³⁶ Even the low living standards enjoyed by workers in 1928 would not be reached again until their *grandchildren’s* generation came to maturity in the Brezhnev era.¹³⁷ Moreover, in response to the ‘labour indiscipline’ and unrest that accompanied the political crisis and wage collapse of the period, the protective legislation of 1917–22 was torn up, the trade unions and factory committees were emasculated and enterprise directors were accorded draconian powers. The 1932 decree on ‘discipline,’ to give one example that may stand for many, authorised not just the dismissal of transgressors but gave management the power to deprive them and their families, on the spot, of their ration cards and to evict them from their lodgings.¹³⁸

Clearly, ‘Stalin’s revolution’ was not, at least in any simple sense, the triumph of city over country. But neither can it be easily construed as an acceleration of what had been an incipient socialist transformation of 1917. The two measures that convinced millions around the world of the socialist content of Stalin’s agenda, economic planning and collectivisation, are in themselves perfectly compatible with the capitalist mode of production. For thinkers as diverse as Marx and Walras the nationalisation of land, within a context of capitalist competition, actually *strengthens* the hold of capitalist relations. In Marx’s account the separation of labour from the land was the crux of the primitive accumulation of capital; for capitalism to develop, land ‘should confront the working class as a condition of production not belonging to it, and *this purpose is completely fulfilled if it becomes state property*’ [italics GD].¹³⁹ A similar point was made by Walras, albeit with the neoclassical economist’s attention to relations of circulation rather than production, in his argument that the nationalisation of land was a means of spurring the mobility of agricultural labour and hence of hastening the attainment of the ‘general equilibrium of exchange’.¹⁴⁰

Given that collectivisation and the five-year plans were accompanied by the crushing of workers’ organisations and living standards and the final obliteration of civil liberties and political opposition, the case that it is best understood as socialist is unconvincing. Given the new lease of life received by traditional cultural phenomena such as superstition and quasi-religious political ritual; the resuscitation of reactionary traditions of anti-Semitism, Great Russian nationalism, and the manifold other varieties of chauvinism; and the limited development of the rule of law, it does not readily fit the description of

134 Chattopadhyay, 1994, p. 158.

135 Filtzer, 1986; Lewin, 1985, ch. 10.

136 Cliff, 1993, p. 41.

137 Connor, 1991, p. 122.

138 ‘Giving the directors power over the workers’ food, lodging, and other supplies in times of hardship and famine,’ Lewin continues, ‘was a very awesome tool indeed for disciplining and motivating.’ 1985, p. 253.

139 In Harvey, 1999, p. 360.

140 In Heilbroner, 1996, p. 219.

‘modernising revolution’ either.¹⁴¹ Far more plausible, in the light of the account laid out above, is the suggestion that the period marked the full-scale subordination of society to the accumulation of capital.

There is a wealth of evidence to buttress the claim that a dramatic shift from a mixed set of priorities in the 1918–27 period to an exclusive concentration upon accumulation thereafter took place, but this need not be detailed here.¹⁴² Suffice to say, net investment soared from 1928 to 1937, rising from 10 per cent to 23 per cent of net national product, while household consumption, by contrast, fell from 82 per cent to 55 per cent in the same period.¹⁴³ The country’s industrial structure, which had been dominated by consumer goods industries throughout the 1920s was, only a decade later, heavily based around producer industries and the arms sector.¹⁴⁴ Meanwhile the Communist Party, as Lewin has described, underwent a process of ‘depoliticisation’. The party cells

now became brokers in the service of their branch of the economy, sometimes even of just one enterprise. [...] The economy was declared to be the most important “front,” to use the martial terminology of the times. [...] Hence the tendency to control and to mobilize institutions and activities in all walks of life and sectors of the state in order to harness them to the building of the country. In this way the country’s cultural, artistic, and other activities were “economized.” Everyone, from writers to judges and procurators, had to contribute to the battle for the productivity of labor, the quality of industrial products, or the building of dams. [italics GD]¹⁴⁵

Institutions such as the traditional peasant community and factory committees that offered protection against the *diktat* of accumulation were uprooted, subordinated to the state or destroyed. What is striking about this is less the degree to which it, being a state-led process, differed from capital accumulation in its ‘primitive’ stages elsewhere than the extent of the similarities. Wolfgang Streeck has pointed out that the Stalinist ‘economy-cum-state,’ bears an uncanny resemblance in its core dynamic to ‘unreconstructed’ *laissez faire* capitalism – that ‘self-regulating market’ which Karl Polanyi suggested was driven to ‘subordinate the social order entirely to rational-economic objectives’ and to marginalise any and all ‘social institutions capable of representing a logic other than that of economic accumulation’.¹⁴⁶

In this analysis, the agent of the accumulation drive arose not, as Trotsky had forewarned, from amongst the petit-bourgeois beneficiaries of the NEP but rather, as some of his fellow oppositionists proposed and as Tony Cliff later argued in detail, from within the party-state bureaucracy, which began to act as an agent of accumulation, as the ‘personification of capital’.¹⁴⁷ The penetration of state into society that occurred during ‘Stalin’s revolution’ can thus be seen, paradoxically perhaps, as a distinctively capitalist moment. Just as in Britain, as Polanyi has shown, the road to the free market was opened and kept open by an enormous increase in continuous, centrally organised state interventionism, so in the

141 Lewin, 1985 and 1997b, argues that the Stalinist autocracy came to incorporate the worst traditions of the exterminated ‘Other’ – that ‘a deep cultural and political regression and a mighty cultural counter-revolution’ represented, in a sense at least, the revenge of the *muzhik*. This conjecture is doubtless a touch unfair to the peasantry, but it does serve to highlight the *anti*-modern side to Stalin’s revolution.

142 See Chattopadhyay, 1994; Reiman, 1987; Cliff, 1974; Nove, 1992.

143 Resnick & Wolff, 2002, p. 266.

144 Flaherty, 1992, p. 125.

145 Lewin, 1985, p. 32.

146 Streeck, 1997, pp. 208–9.

147 Cliff, 1974 p. 165. On earlier theories of state capitalism see Ciliga, 1940; Callinicos, 1990; Fernandez, 1997.

Soviet Union the mobilisation of society behind the drive to catch up with Western market economies occurred through an enormous increase in state ownership but also, simultaneously, the 'economisation' of the state.¹⁴⁸ 'Stalin's revolution,' in this light, involved the conversion of the Soviet state, driven by geopolitical competition, into an agent of accumulation. It projected political power throughout society with such determination precisely because it was itself undergoing a process of 'economisation.' Stalin's 'catch up or go under' speech encapsulates the overriding strategic goal of the party-state. It underpinned the programmes of forced industrialisation, collectivisation, as well as the extreme repression that these called for. In short, the same historical transformation that 'married the state and capital,' as Haynes has put it, also 'completed the subordination of the Soviet economy to the world economy'.¹⁴⁹

War economies in inter-war Europe

Cliff's analysis, which suggested that the logic of 'socialism in one country' had committed the Communist Party to re-establishing the very social relations that it had originally pledged to overthrow, succeeded in making sense of what had been, particularly to supporters of Trotsky, a major puzzle, *viz.* that the unexpectedly rapid successes in achieving some of the instrumental, second-order goals of socialism – collectivisation, industrialisation, economic planning – arrived even as the last traces of the core Bolshevik project – participatory workers' democracy and the conscious collective control of society – were being eclipsed. Whereas Trotsky interpreted the USSR in the 1930s as an explosive amalgam of antithetical structures that could not last, Cliff's theory, written as the now-stabilised Soviet system successfully expanded its reach over Eastern Europe, highlighted the fact that 1927–9 had set in motion not a process of destabilisation but the creation, amidst conditions that approximated civil war, of what was to become a settled economic and political system. In terms of Communist ideology, much of the road from socialism to a modernising corporate conservatism had already been travelled by 1928.¹⁵⁰ Even in 1928, as Adam Ulam has suggested, and still more in 1932, the USSR would have seemed more familiar to Soviet citizens of the 1970s than to their counterparts of 1921.¹⁵¹

148 Andor and Summers, 1998, p. 48.

149 Haynes, 1985, p. 110.

150 That Stalinist ideology in, and especially beyond, the 1930s became conservative in the 'positional' sense of a 'system of ideas employed to justify any established social order' is not especially controversial, but, by the same token, is banal (Samuel Huntingdon, quoted in Freedman, 1996, p. 329). But the appellation also fits Stalinism in Karl Mannheim's richer sense of conservatism as a counter-movement to values associated with socialism and liberalism, such as liberty, equality and internationalism (Freedman, 1996, p. 335). This would explain the fact that Stalinist ideas were not simply justifications of the post-1928 *status quo* but embodied a number of core conservative traits: a concept of society as organism in which the division between leaders (with privileged insight into the workings and needs of society) and led is naturalised; in which, despite actual social differentiation, national, corporate and class harmony are assumed; and in which groups that are perceived as foreign tissues in the social organism are to be tolerated if fortunate, scapegoated if not. Social order, for most currents of conservatism, including Stalinism, is built upon the family unit, the bonds of the nation, and a strong paternalistic state. As with any conservatism, the Stalinist brand incorporates certain values from liberal and socialist traditions. Meritocracy is one such that Barrington Moore has emphasised; a rationalist philosophy is another. See especially Harris, 1971a, Haynes, 2002, pp. 150–62; also Moore, 1956, pp. 241, 416. Larry Ray (1996, p. 54), following Vera Dunham, also draws attention to the *cultural* conservatism of the new ruling class, which 'surrounded itself with chintz curtains and polka-dotted tea cups, thick pile carpets, red-plush hangings and monumental architecture.'

151 Ulam, 1976.

The same period of conflagration and crisis saw the cementing into place of what was to become a distinctive political system, involving the complete suppression of opposition and dissent and the institutionalisation of the role of the secret police, as well as the emergence of what would later become known as the Soviet-type economy. The STE, as Oskar Lange observed in a justly acclaimed article, may 'be described as a *sui generis* war economy.' Its 'genetic code,' as it were, consisted of the following elements: relative autarky, a high degree of industrial concentration, an emphasis on heavy industry, a high savings ratio, allocation by administrative decision, the extensive use of political incentives and ideological appeals to increase productivity, and the mobilisation of all resources towards one overriding goal (and the concomitant centralisation of the disposal of resources to avoid leakages to non-essential purposes).¹⁵²

In a general sense these phenomena were not unique to the USSR. The trend towards state capitalism, as discussed in the preceding chapter, appears to flourish in certain conditions, notably, intense geopolitical competition, 'de-globalisation,' and where backward economies led by modernising elites engage in strategies of 'catch up' industrialisation. The first of these, militarism, tends to draw states into an economic coordination role, notably of the arms industry and other 'strategic sectors.' The second refers to the breakdown of international trade and capital flows: the 'nationalisation' of domestic economies. In the third, a low propensity to save combined with a high demand for investment produces a contradiction to which coercion typically offers a solution: where the land is barren and productivity low, 'only a very powerful army and police force,' as Nigel Harris once put it, 'can snatch the surplus for national investment between the peasant's hand and mouth.'¹⁵³

If the third condition was a constant in many countries from the mid-nineteenth century at latest, the first was present to an extreme degree in the first half of the last century before giving way to more stable forms of what Anthony McGrew has called 'embedded militarism' during and after the Cold War, while the second, economic 'de-globalisation,' emerged in 1914, receded somewhat in the 1920s, but returned with a vengeance during the Great Depression.¹⁵⁴ In this decade the crisis-ridden world economy and multi-polar states-system formed a crucible in which the three conditions just listed interreacted with explosive consequences. States' attempts in the early 1930s to displace the pain of deflation through 'beggar thy neighbour' currency devaluation served to generalise and deepen the world crisis, inducing a breakdown in international exchange relations and a fragmentation of the world economy into relatively autarkic patches. Capital controls were instituted and protectionist barriers raised in an attempt to shut out the fluctuations of world prices and secure domestic markets for domestic firms.¹⁵⁵

With trade volumes falling and tariffs and other restrictive trade practices mushrooming, and in the absence of a hegemonic economy prepared to open its markets to the exports of late industrialisers, the export-promotion path that had been trodden by Germany before World War One and which would be

152 Lange, 1969, p. 171. For earlier treatments of state capitalism as war economy and *vice versa*, see Bukharin, 1982; Cliff, 1964.

153 Harris, 1971b, p. 140.

154 McGrew, 1989.

155 Kindleberger, 1973.

repeated by the likes of Japan and South Korea in the post-war period was closed off.¹⁵⁶ The fact that Britain, although no longer a hegemonic power, remained cushioned from the worst effects of the Depression thanks to imperial preference only encouraged those powers that were not blessed with empire to seek their own. In conditions of crisis, in which capital cannot be profitably employed in the civilian sector, all the greater is the attraction of directing it to the production of arms for prising open markets elsewhere. Military expansion, as Rosa Luxemburg once put it, can function as 'a pre-eminent means for the realisation of surplus value.'¹⁵⁷

In Germany and Japan, industrialists and policymakers sought to ameliorate problems brought about, first, by the devaluation of capital and, later, by the constraints of autarky, through ensnaring the productive potential of neighbouring regions.¹⁵⁸ Already in 1932, as Alfred Sohn-Rethel has described, sections of the German business and political classes were advocating capital centralisation by means of physical annexation that was bound to involve 'the violent overthrow of the post-war Central European order'.¹⁵⁹ Their strategy of creating a German-led *Grossraumwirtschaft* was buttressed by a military build-up under Hitler that accelerated the shift towards direct state intervention in the economy which had already begun, under Brüning, with exchange and price controls. The state took over the savings bank and imposed strict supervision over commercial banks. These, together with the stock market, largely lost their ability to direct the flow of capital. The state, moreover, regulated industry and encouraged cartelisation. It signed long-term contracts with industrial groups to buy their output at fixed prices, and set quotas for many industrial goods, especially in the heavy industry and energy sectors. Industrial firms were forced to deposit all profits above a certain level with the state. Prices were kept constant, depriving profits of their allocative role.

Hitler's Germany was an egregious example of inter-war state capitalism, but not the only one. Much of central and southern Europe and Latin America knew similar systems in the same period. In Poland, to give but one example, most major industries were state owned, and all were organised into officially registered cartels that were tightly controlled by the Ministry of Industry.¹⁶⁰ It would be misleading to see the proliferation of state capitalisms in the inter-war period as a result of political classes 'freely choosing' to adopt the model. Rather, central planning was a format that proved relatively well adapted to mobilising economies for military expansion and war and, more generally, for organising the conditions for capital accumulation in relatively backward economies during a period of 'de-globalisation'. So profound was the transformation of the world economy that towards the end of the 1930s E. H. Carr could go so far as to declare that the nineteenth-century 'illusion of a separation between politics and economics has ceased to correspond to any aspect of current reality'.¹⁶¹ A further generalisation of *étatiste* models of capitalism

156 Catch-up industrialisation in both the nineteenth and twentieth centuries was more likely to succeed, Hermann Schwartz argues (2000, p. 101), in the presence of a benign hegemony. 'If the hegemonic economy chose to protect its market from the exports of late industrializers,' as in the 1930s, 'those late industrializers would have a more difficult time starting and sustaining a virtuous circle of rising output-rising productivity-rising competitiveness-rising sales.'

157 Howard and King, 1992, p. 112. See Luxemburg, 1951, ch. 32.

158 Harman, 1984.

159 Sohn-Rethel, 1987, p. 49.

160 Andor and Summers, 1998, p. 179; Harman, 1988; Gross, 1997.

161 Carr, 1939, p. 117–20.

during World War Two only confirmed Carr's observation, with war economies constructed even in the 'liberal heartland' of the United States and Britain.¹⁶² In the light of the economic transformations wrought in this epoch of depression and wars it was abundantly clear that, as the German socialist Richard Löwenthal remarked at the time, 'the capitalist market economy can be subordinated to a Plan and yet remain a profit-oriented capitalist economy.'¹⁶³

If state intervention in general, and the nationalisation of industries in particular were pronounced features of all economies during the 1914–45 epoch of wars, crises, revolutions and counter-revolutions, that the trend took an extreme and most unusual form in the USSR was the product of five main factors. First, there was the country's backwardness and the inability of market mechanisms to sustain rapid industrialisation,¹⁶⁴ combined with, secondly, the intensity of the perceived military threat in the late 1920s that was followed by an arms race against powerful and revisionist neighbours to the East and West. Third, the USSR, being a vast territory endowed with abundant natural resources, was relatively well equipped for autarky. A fourth factor was that the state's repressive apparatus was undergoing enlargement in the course of demolishing the remaining vestiges of workplace organisation, civil society, and inner-party opposition. Just as in Germany the triumphs of Hitler's security forces over trade unions and rival political parties paved the way for the deployment of coercion in the state's economic dealings (as with the threats to businesses that resistance to state controls would be met with expropriation) so too did the Soviet security forces come to be granted vital economic functions, to a limited degree under War Communism and to a far greater extent, from the late 1920s, with the collectivisation of agriculture and the establishment of labour camps on a massive scale. The *extreme* form taken by autarkic state capitalism in the USSR can be attributed largely to these factors, together with the legacy of tsarist state capitalism. Its *peculiarity*, however, the wholesale nationalisation of industry and agriculture, partly reflected the perceived need to tax the countryside to the limit, but also resulted from a fourth factor: that 'the already weak forces of private capital,' as Chris Harman has put it, 'had been smashed in the aftermath of 1917'.¹⁶⁵

War-economic structures

The Soviet war economy was at once peculiar and yet in most respects typical of capitalism in an *étatiste* phase. Of its characteristic structures several stand out. First of these was the role of the Communist Party. Steep-ascent industrialisation, as discussed above, was achieved through the centralised mobilisation of resources combined with a repressive strategy designed to yoke a muzzled workforce to the accumulation of the national capital. It was above all the Party's task to organise the binding of each individual economic unit, and each element of society, behind that overarching strategy. It strove to lash various social groups

162 By 1943 the state was responsible for 90 per cent of all investment in the USA. The British state's share of GNP, in the same period, soared to 75 per cent. Gough, 1975, p. 58.

163 Löwenthal, 1977, p. 89.

164 'On these grounds alone,' Moshe Lewin has concluded, 'an essentially administrative approach and system, at least for a considerable time, was bound to emerge anyway, whatever the ideology.' Lewin, 1985, p. 28.

165 Harman, 1988, p. 8.

and institutions into a national corporate unity that was systematically subordinated to the goal of accumulation. A crucial dimension here was the management of labour, a task which encompassed the provision of subsidised basic consumer goods to assure at least minimal welfare and social stability, the atomisation of the working class and the suppression of independent workers' organisations, and the promotion of a 'siege ideology' and military-style campaigns designed to elicit greater sacrifices from the workforce. In order to impose the priorities of forced industrialisation despite the severe social tensions that resulted, the Communist Party's 'party line' evolved into a method of command; as Terry Boswell and Christopher Chase-Dunn have described, it grew to resemble the bureaucratic concept of a 'standard operating procedure,' whereby deviation from the line (or procedure) without endorsement by superiors was *defined* as irrational and detrimental to the organisation.¹⁶⁶

Secondly, the Soviet economy, and STEs in general, evinced a systematic bias towards heavy industry. Economic policy consistently favoured the producer goods sector, for example by keeping prices for producer goods artificially low. As discussed above, the share of consumer goods branches in total production declined sharply after the introduction of the five-year plans. To account for this, some scholars invoke the 'ideological predilections' of the Communist Party – 'the communist romance of coal and steel.'¹⁶⁷ But this sort of explanation is of little help in explaining the sharp turn towards heavy industry in the *late* 1920s. It also implies an amnesia towards the role played by 'coal and steel' to 'capitalist' industrialisation. One need not enter the lists on the question of whether coal, iron and arms production (and the processes of conquest and colonisation that these enabled) were the prime *causes* of the industrial revolution to appreciate that they were important factors fuelling that transformation which, from the eighteenth century onwards, opened up the economic gap between Western Europe and its appendages and the rest of the world. The prioritisation of heavy industry accorded with general world trends of the late nineteenth and early twentieth centuries; it represented Soviet Russia's attempt to march in step with Western Europe rather than with its colonies. For that reason, as Joseph Berliner once put it, 'the military and heavy industry attainments of the advanced capitalist countries are the principal goal towards which development has been directed.' If we are 'to capture faithfully the aims of the Soviet elite,' Berliner continued, 'then we must accord first place to military defence, and derivatively to heavy industry, as the aim of economic development.'¹⁶⁸ Given the backwardness of the Soviet economy as compared with those against which its arms industries raced, the need to set priorities was felt with uncommon force. Nigel Harris has expressed this point with his customary acuity:

The arms race becomes a powerful factor defining the entirety of domestic activity – the more so, the more backward a country is. For the Soviet Union, contesting world supremacy with the most powerful single national State, the United States, from a position of relative economic weakness, the imperative becomes very powerful indeed, shaping all other subsidiary decisions down to how much investment should be devoted to agriculture.¹⁶⁹

166 Boswell and Chase-Dunn, 2000, p. 85.

167 Ross, 2002, p. 86.

168 Berliner, 1988, p. 162.

169 Harris, 1983, p. 170.

Setting these priorities was the task of the central plan – the third defining feature of the STEs. Plans were not drawn up according to the procedure of assessing actual economic activity followed by a projection of possible growth rates to form the basis for setting targets. Rather, the reverse was closer to the truth. High targets were set, especially in the producer goods and military sectors, with the aim of forcing up growth rates.¹⁷⁰ The ‘taut’ plans that resulted were, at root, a product of the drive to match the scale of production and level of technology of rivals, with the scale of resources that were allocated to each investment project being determined less by what the economy could sustain than by the standards set by competitors.¹⁷¹ There is plentiful evidence, as Berliner has shown, to indicate that the targets of the ‘Five Year Plans were drawn up with the image of the capitalist countries prominently in view.’¹⁷² One obvious inference that can be drawn from this observation is that taut plans were not, as Alec Nove appears to believe, a ‘*substitute* for competition’ [italics GD].¹⁷³ They were the genuine article: participating in global military and economic competition, the Soviet planners were *forced* to maximise growth.¹⁷⁴

A considerable element of competition also operated within the confines and interstices of the national plan, whether in the relationships between central planners and managers, amongst enterprises, between managers and workers, or amongst workers on the labour market.¹⁷⁵ The planning process itself centred on competitive bargaining.¹⁷⁶ At the ministerial, sectoral, and enterprise levels competition for inputs occurred in three key areas: on the labour market; over the allocation of investment resources (notably by managers currying favour with officials during the process of ‘plan-bargaining’); and between firms for inputs.¹⁷⁷ That various contradictory interests were involved – planners and managers, between managers and workers, for example – inevitably begat behaviour that undermined the plan.¹⁷⁸ In its East German avatar, for example, it was ‘characterised by negotiations and disputes that [were] fraught with conflict and plagued with departmental selfishness, which result[ed] from the individual bureaucratic interests of the state bodies and from the scarcity of available means’.¹⁷⁹ Planning was reactive, not *ex ante*. What actually existed in the STEs, as Eugene Zaleski once put it, ‘as in any centrally administered economy, is an endless number of plans, constantly evolving, which are coordinated *ex post*’.¹⁸⁰ In the USSR plans were constantly

170 Filtzer, 1986, p. 40.

171 Harman, 1984, p. 112.

172 Berliner, 1988, p. 161.

173 Nove, 1980, p.7. In a more developed version of this argument, Robert Kurz (1991 pp. 99–137) has proposed that the nationalisation of the means of production in war economies, including the STEs, amounts to a ‘complete suspension of competition,’ in particular of its ‘productivity-raising function.’ That war economies are forced to match their rivals in military and thus also in economic terms is ignored.

174 Subsidiary causes of taut planning were (i) the attempt by planners to compensate for the fact that managers hoarded inputs in the expectation of receiving targets that would be difficult to meet; (ii) the fact that plans were developed at different organisational levels, with the careers of plan-setting officials at each level dependent upon the success of subsidiary layers, resulting in the amplification of targets at each level. See Berliner, 1988.

175 Gerschenkron, 1962, p. 286; Lockwood, 1998.

176 Przeworski, 1991, p. 142; Fernandez, 1997, p. 121.

177 The latter refers especially to the ‘grey’ markets of inter-enterprise barter where informal horizontal links between enterprises developed into vital mechanisms involving a bartering of resources that reflected relative productivity levels much more closely than did the price system. As this phenomenon indicates, resources were not simply distributed according to bureaucratically-allotted prices. Equally important were the reactions of economic agents to shortages.

178 Gansman, 1993, p. 176.

179 Hamel and Leipold, 1987, p. 283.

180 In Bideleux, 1985, p. 142.

readjusted, often very extensively.¹⁸¹ In East Germany the plan was overhauled four times in 1951–4; the 1956–60 plan only became law in December 1957 and was discontinued in 1959; the 1959–65 plan was discarded in 1962; the 1964–70 plan only became law in 1967 and was revamped in 1968 ... and so on ever upwards to the planned utopia.¹⁸² Furthermore, as the STEs grew ever more dependent upon trade, the *ex post* nature of planning grew more apparent still. Günter Mittag, the East German leader responsible for the economy, recounts in his memoirs that ‘because of external factors that were decisive but could not in principle be influenced by the GDR and to which one could only passively react, a “true plan” would always remain an illusion.’¹⁸³ In preference to the term ‘planning,’ economic organisation within Soviet societies may more accurately be described as a ‘system of priorities,’ or, to borrow from Patrick Flaherty’s lexicon, a conjunction of ‘plan anarchy’ and ‘*laissez-faire* corporatism’ in which a command-administrative centre strove to mobilise ‘a confederacy of competing and colluding economic sub-units’ behind an overarching accumulation strategy.¹⁸⁴

The ‘animal spirits’ of Soviet capital

The state ownership of industry that enabled planning to take a more comprehensive form than in comparable Western economies also gave rise to a number of peculiar features of the STEs’ growth dynamic. The ‘goal of production’ in STEs, as for Western war economies, was less the profit of each particular enterprise than the appropriation of surplus product on the national scale.¹⁸⁵ However, the high degree to which surplus appropriation was socialised correlated with relatively ‘soft’ constraints upon enterprise budgeting. It would be misleading to conceive of soft budget constraints as unique to STEs. Even in contemporary neo-liberal capitalism – in which the norm of financial discipline is accorded an elevated status – banks commonly tolerate bad debts, especially of major companies, on the grounds that they would themselves suffer badly if the debtor were to become insolvent. States still commonly step in with rescue packages for ailing companies, while the tendency to lower the penalties that bankruptcy incurs softens the budget constraints for small businesses too.¹⁸⁶ Nonetheless, it is undeniable that the comprehensive nature of state ownership combined with their relative insulation from foreign trade led to unusually soft constraints upon STE enterprise budgets. State-owned firms could rely on state banks to supply the funds required to pay their bills; they did not have to fear liquidation if investment mistakes were made; restraints upon expansion were lessened and what Janos Kornai calls ‘investment hunger’ prevailed. For Kornai, the upshot was that ‘*nothing keeps the firm from investment*. Investment risk has ceased.’¹⁸⁷ Soft budget constraints, he concludes, stimulate the ‘animal spirits’ of capital.¹⁸⁸

181 Wilhelm, 1979.

182 Zwass, 1984; Bentley, 1984.

183 Mittag, 1991, p. 75.

184 Flaherty, 1992, pp. 120–30.

185 Kuron and Modzelewski, 1969.

186 Stiglitz, 1994, p. 184.

187 Kornai, 1986, p. 24.

188 Kornai, 1992, p. 163.

The 'tautness' of central plans together with the 'softness' of enterprise budget constraints unquestionably led to high rates of investment.¹⁸⁹ They also gave rise to distinctive problems of inefficiency and waste, as well as to some peculiarities of the STE business cycle.¹⁹⁰ The latter, as Jan Adam has described, was strongly influenced by 'the drive for maximum economic growth and the great emphasis on the preferential growth of producer goods (in which military goods play an important role).' This 'taut' accumulation strategy would inevitably lead to a 'stepping up of the investment ratio to a level which can be rightfully called over-investment.'¹⁹¹ At that level, barriers to growth would arise, the symptoms of which were likely to include exacerbated shortages of raw materials, capital goods or labour; debt and balance of payments difficulties; severe disruptions in the process of economic coordination; and consumer goods shortages. In response to signals of impending crisis, planners would be forced to put many projects on hold in order to free resources for priority investments (usually in the capital goods sector). Severe bottlenecks would result, as enterprises and retail outlets suffered from the absence of allocated goods. Once prioritised projects began production, however, more resources would be released, and economic downturn would give way once more to boom. In turn, plan targets would be forced up, and the cycle resumed.¹⁹²

Shortages, although a symptom in particular of the apex of the business cycle, were also endemic to STEs (and to war economies in general). They resulted from a combination of three underlying characteristics: investment hunger, the weakness of restructuring mechanisms, and the bias towards production with little regard to cost. Without an undue need to worry about the relation of costs to revenues, managers were able to counter unrealisable targets and unreliable supplies by disguising figures, inflating requirements, and hoarding resources (including raw materials, components and employees).¹⁹³ '[L]ike the two arms of a nutcracker,' to borrow an apposite image from Tony Cliff, high output targets together with unreliable or insufficient supplies encouraged

managers to cheat, cover up production potentialities, inflate equipment and supply needs, play safe, and in general act conservatively. This leads to wastage, and hence lack of supplies and increased pressures from above [...] and so on in a vicious circle.¹⁹⁴

Other coping strategies adopted by enterprise managers included the attempts to compensate for irregular supplies through 'campaign' techniques (notably 'storming'); and to alleviate supply problems through semi-official horizontal barter relationships with other enterprises. Enterprises (and even ministries) also, as Jan Winiecki has described, tried 'to minimize the risk of non-execution of plan targets by producing

189 In the 1960s, for example, Paul Gregory found that investment as a proportion of GNP compared favourably with a basket of market economies, including high-investors such as Japan, West Germany and Norway. The STEs scored 27.8 per cent, their market counterparts only 22.9 per cent. Gregory, 1970, p. 144.

190 'Waste' is notoriously difficult to define. As used here it does not include non-productive expenditure on the military or for the luxury consumption of the *nomenklatura* even though there are good reasons to define such spending as wasted.

191 Adam, 1979, p. xvii.

192 For a detailed explanation of the STE crisis cycle see Harman, 1976.

193 In turn, a veritable industry existed to track down hidden production reserves in the hope of promoting 'leaner' production, with more efficient resource utilisation and lower turnover times. In East Germany the institution responsible employed around 150,000. Völker, 1995, p. 72.

194 Cliff, 1964, p. 262.

internally as large a part of intermediate inputs as possible.¹⁹⁵ This form of 'D.I.Y. economics' – otherwise known as 'departmentalism,' 'import substitution on the micro-level' or 'internalisation'¹⁹⁶ – entailed the replication in miniature, at the ministerial and enterprise level, of the relative autarky of the national economy. Each ministry or conglomerate tended to become a separate empire, producing most of its own components while others produced similar parts at similarly small production volumes.¹⁹⁷

The techniques just mentioned by which enterprise managers responded to supply problems may have been sensible strategies under conditions of shortage, but bred a set of irrationalities. When stressed and maltreated workers were invited to 'storm,' the goods produced would only be shoddier than normal, leading to disrupted production further down the line and frustrated consumers. Hoarding resources, although rational at the enterprise level, only exacerbated shortages in general; the hoarding of employees in particular served to intensify the labour shortages that formed such an enduring obstacle to managers' attempts to discipline the workforce. The pricing system, geared to maximising output growth, encouraged resource waste by setting low prices for raw materials, energy and labour.¹⁹⁸ As Winiecki explains, 'incentives to execute and exceed plan targets were positively correlated with volume or value of production, but were not at the same time negatively correlated with production costs.'¹⁹⁹ In the mid-1980s, as a result, the USSR was able to produce a national income of between half and two-thirds that of the USA, but in doing so used 1.6 times more materials, 2.1 times more energy, and twice as many freight shipments.²⁰⁰ Departmental autarky, moreover, acted to restrict the possible benefits of an inter-enterprise division of labour. Large enterprises tended to produce on a surprisingly small scale, with correspondingly unsophisticated technology and unspecialised labour, exacerbating the phenomenon of underspecialisation that was in any case a characteristic of import substitution on the macro level. D.I.Y. economics thereby amplified the existing tendency to input-intensive production which, in turn, sharpened the climate of shortage and the pressure placed upon enterprise managers to minimise dependence on unreliable supplies by resorting to D.I.Y. This particular vicious circle could, furthermore, strengthen as economies grew more complex. As Berliner explains,

as a consequence of technological advance, products contain many more components manufactured by other enterprises. Ministry and enterprise are therefore more vulnerable to the deficiencies of the supply system and have stronger motivation to produce their own principal components and supplies.²⁰¹

The upshot was a form of economy characterised by the production of a very wide range of products with correspondingly short production runs, using backward technology and achieving correspondingly low returns with which to finance further investment.

195 Winiecki, 1989a, p. 73.

196 Cliff, 1964, p. 245; Winiecki, 1989b, p. 366; Sapir, 1997, p. 228.

197 Filtzer, 1992, p. 27.

198 Cliff, 1964, pp. 230–255.

199 Winiecki, 1988, p. 4.

200 Filtzer, 1994, p. 206.

201 Berliner, 1988, p. 282

Eric Honecker in Magnitogorsk

Could the sources of inefficiency mentioned in the previous section, notably organisational autarky, hoarding, inter-enterprise barter and the sacrifice of quality for output but also the corruption that flourished in the interstices of the system have caused the STEs' ultimate demise? An affirmative answer could well contain an element of truth. Caution, however, is warranted. For one thing, these forms of inefficiency are classic symptoms of the war-economic form, and abounded in rapidly growing Western war economies such as the USA in the 1940s.²⁰² For another, as the Soviet economy aged, according to research by Baretto and Whitesell and Alec Nove, it actually became less wasteful and less inefficient.²⁰³ Nor was it necessarily more wasteful than its advanced rivals. A study of the full range of Soviet industrial sectors by Baretto and Whitesell even estimates that the percentage of output lost by misallocation of inputs was comparable to that of US industry, while further research by Whitesell found the allocative efficiency in the USSR's foreign and inter-firm trade to be akin to that of developed market economies.²⁰⁴ Furthermore, the war-economic structures that bred such irrationalities also evinced awesome strengths. The command framework in particular meant that many of the uncertainties that hinder investment under laissez-faire conditions were abolished and production maximised. As Alec Nove put it,

with all its defects the system had an overwhelming advantage: that of enabling the leadership to concentrate resources on its priorities, without being deflected by considerations of profitability, private-enterprise interests, or the pressure of public opinion.²⁰⁵

Similarly, Berliner argues that war-economic structures

enabled the Soviet government to generate very high rates of investment, to manage the transfer of unparalleled millions of workers from agriculture to industry, and to attain an impressive rate of economic and industrial growth during the first thirty-five years of the plan period.²⁰⁶

Histories of the early period of Soviet industrialisation, notably Stephen Kotkin's study of the construction of the steel works at Magnitogorsk, give a flavour of the astonishing, and breathtakingly brutal, achievement behind these words.²⁰⁷ Kotkin describes the transformation of a remote rural landscape as an advanced steelworks, modelled on gigantic American ones, was stamped out of the ground. In a madcap scramble, and amidst squalid conditions, a city arose, and with it the 'socialist achievements' of colossal factories, brick houses, streets, schools, and the occasional health centre. One can see how this process, in its terrible grandeur, might have impressed eyewitnesses – such as the young Erich Honecker who worked there in the 1930s. Honecker and others like him would carry the lessons back to the central and eastern

202 Kemp, 1990, p. 101; Berliner, 1988, p. 286.

203 Whitesell, 1990, p. 261; Nove, 1980 p.17.

204 Whitesell, 1990, pp. 259–265.

205 Nove, 1975, p. 74.

206 Berliner, 1988, p. 246.

207 Kotkin, 1995.

European countries that they were later to reorganise according to a similar formula of iron rod and practical chaos.²⁰⁸

Thanks to the steel works at Magnitogorsk and others like it, the Soviet economy and military did succeed in 'catching up this distance in ten years,' to recall Stalin's adjuration of 1931, and did not 'go under'. The USSR proved capable of defeating the German military, tank for tank;²⁰⁹ it conquered most of Eastern Europe and reigned for half a century as the planet's second military power, with allies across four continents and a permanent seat on the UN Security Council. For most of the six decades that followed the USSR's first five-year plan, as well as for its satellites following the transplantation of the model to Eastern Europe, the gap in per capita output between the USSR and most other STEs and the Western economies narrowed.²¹⁰ As a percentage of Europe's average GNP the USSR's share, according to Paul Bairoch's estimate, soared from fifteen in 1929 and twenty in 1950 to thirty-three per cent in 1975.²¹¹ Its share of world industrial output, meanwhile, soared from four to nineteen per cent, leaving comparable economies such as Spain in the dust.²¹² Writing in 1969, Angus Maddison could remark that Russia and Japan 'are the only clear cases in the past half century in which the income gap between rich and poor nations has been substantially narrowed,' and the Soviet achievement, moreover, as Mike Haynes points out,

was the more remarkable since Japan had already achieved the 1940 Soviet level of urbanisation in 1910, it experienced less destruction, and it was helped after 1945 by \$3 billion of economic aid and \$11 billion of military aid, as well as having US military purchases cover one quarter of its imports at the time of the Korean War and still some 5 percent in 1965.²¹³

In both Japan and Russia, as well as the Eastern European STEs and the 'newly industrialising countries' of the post-war period such as China, South Korea and Brazil, state capitalist structures were geared primarily to industrialisation and the shifting of labour into industry. All of these economies manifested a growth bias thanks to state measures to promote economies of scale through the subsidisation and protection of industries, and the ensuing 'Verdoorn effects'.²¹⁴ In all these cases the emphasis was upon growth by 'extension' – extracting more outputs from more coordinated and organised inputs, such as mobilising greater numbers of workers and equipping them with machines – rather than by 'intensive' technological transformations in which productivity rises while resources are economised.²¹⁵ This has led some economists to conclude that command economies are adaptable *only* to relatively simple productive

208 Such individuals may have been especially well-suited to governing in times of crisis, war and post-war reconstruction. As Robin Okey has observed (1982, p. 192), 'their Stalinist heritage attuned them to the curious mix of messianism, cynicism and brutalization which characterized overwrought times.'

209 Given its industrial superiority and rapid advance into Soviet industrial regions, it is interesting to note that Germany, on its front with the USSR, fielded more men but fewer tanks and aircraft than the latter, and that despite low-quality components the Soviet T34 and KV tanks were technologically superior, according to Bonwetsch (1997) and Sapir (1997).

210 Chawluk, 1988, p. 415; United Nations, 2000; Zauberman, 1964, p. 6.

211 Bairoch, 1976, p. 302.

212 Chandler, 1990, p. 4. In terms of comparative levels of industrialisation per capita, if that of the UK in 1900 = 100, the Soviet figure rose from 20 in 1928 to 73 in 1953 and 252 in 1980. The equivalent figures for Spain were 28, 31, 159. See Bairoch, 1982, p. 281.

213 Haynes, 2002, p. 105.

214 The term refers to the productivity increases that result from rises in an enterprise's output: the more a business produces of one good, the more experience it gets and the more efficient it becomes at producing that, and other, goods. Cf. Schwartz, 2000, p. 61.

215 The definitions here are adapted from Mann, 1986, p. 285.

processes or extensive growth.²¹⁶ If that were so, one would need to look no further for an explanation of the demise of the STE model, and indeed of the subsequent difficulties faced by the extensive growth-oriented state capitalist economies of East Asia.²¹⁷ And yet, paradoxically perhaps, the least developed sector of the STEs was invariably the simplest, agriculture, while state-of-the-art equipment was developed for and deployed in a range of advanced industrial sectors. In the USSR and East Germany, particularly in the era of Stalin, Khrushchev and Ulbricht, major and usually successful shifts of investment into high-tech sectors such as aerospace, petrochemicals, electronics and data processing occurred. Noteworthy technological advances were charted not simply in traditional areas but also in cutting-edge fields such as laser technology and space optics, and not only through the import and emulation of technology and technique but also by way of indigenous invention and innovation.²¹⁸

Conclusion

The economic structures of the Soviet Union from the late 1920s appear in one sense as a crystallisation of the general trends discussed in chapter one. By the inter-war period businesses throughout the world were typically organised on the national scale. Leading firms were rarely run by proprietors, more normally by teams of managers. Relations between businesses and states were intensive, particularly in times of war; state capitalism had become the norm. The Soviet Union was, equally, unusual in the degree of nationalisation. This, it was argued above, although in part reflecting the legacy of the Tsars, the 1917 revolution and civil war, came about primarily as a consequence of the multiple crises of the late 1920s. The Communist Party leadership responded to the threat of war with more advanced capitalist states by adopting a strategy of forced industrialisation and collectivisation. It was at this juncture that the characteristic structures of the Soviet model were laid.

If the main roots of the Soviet model can be found in a particular constellation of economic backwardness, geopolitical threat, and the economic and social crises of the late 1920s, why then were the same structures transferred in the postwar period to societies that in some cases, notably East Germany, were already economically advanced and in other respects quite unlike the Russia that Stalin had set out to industrialise? Was it a matter of 'exporting revolution'? The case of East Germany, as shall be argued in the next chapter, looks into this claim.

216 E.g. Brenner, 1991.

217 A study of the Asian tigers by Paul Krugman, for example, found that their growth demonstrated 'startlingly little evidence of improvements in efficiency'. Quoted in Haynes, 2003. On the Asian tigers as state capitalisms, see Harris, 1987.

218 Stokes, 2000, p. 5; Haynes 1987, p. 12; Berliner 1988, pp. 201–5; Kornai, 1992, p. 183.

3. Soviet foreign policy and the Division of Germany

Although a great deal more is now known than was the case before the opening of archives in East Berlin and Moscow, debate continues to surround questions concerning the division of Germany. Was the GDR a product of the 'export' by Moscow of 'revolutionary' social structures and norms? Or were Moscow's actions more 'realpolitical' in spirit? Such questions are related to wider contested issues concerning the origins of the Cold War. Here, debate no longer rages in quite the same way as it did in the 1970s, between traditionalists and revisionists, and yet consensus is, despite the availability of new archival sources, as far from reach as ever. Before surveying contemporary research into the GDR's origins, this chapter begins with a brief overview of wider debates concerning the origins of the Cold War in general and Soviet foreign policy in particular.

According to traditionalist scholarship the causes of Germany's division, indeed, the origins of the Cold War itself, lay in a Soviet expansionism rooted in the ideological and psychological make-up of the Communist Party and its leadership.²¹⁹ Committed to the spread of its worldview, the Kremlin would not rest content with its extended influence gained through the defeat of Nazi Germany. '[T]he intransigence of Leninist ideology, the sinister dynamics of a totalitarian society and the madness of Stalin,' in Arthur Schlesinger Jr.'s influential version of the argument, 'made it hard for the West to accept the thesis that Russia was moved only by a desire to protect its security and would be satisfied by the control of Eastern Europe.'²²⁰ The post-WWII conjuncture in Europe, in this conception, represented a resumption of the post-WWI conflict between the Red Army and a coalition of White Russian and foreign forces, albeit with a worrying difference: the Reds' reach, now undergirded by Soviet heavy industry, had extended as far as the Elbe, in contrast to the USSR's encirclement and economic depredation in the previous round. With a conquering army under its control and committed to spreading revolution the Soviet leadership could hardly be expected to demonstrate the kind of pragmatism associated with traditional statecraft, above all the willingness to compromise. Their single-minded dedication to expansion would inevitably result in the imposition of Communist social structures and ideology upon the countries of Eastern Europe and beyond. The origins of the Cold War therefore lay not in geopolitical rivalries but in an ideological antagonism, one in which the revolutionary camp showed scant regard for the established norms of international behaviour. The drift towards Cold War should not be seen as 'an issue of power,' as A. J. P. Taylor once put it, but as 'a clash between two fundamental conceptions of the world,' a conflict in which one contestant was 'logical and ruthless, the other benevolent and muddled'.²²¹ In the German arena the 'logical and ruthless' parties were the Soviet Military Administration and the German Communist Party, soon to be renamed 'Socialist Unity Party' (SED). Their ideologically-driven cadre set out to re-engineer East German society through the

219 'Traditional' as defined here also includes the recent work of John Lewis Gaddis and Wojtech Mastny. For surveys of interpretations of the origins of the Cold War, see Walker, 1981; Leffler, 1994b. For critical readings of Gaddis's and Mastny's recent work see Lundestad, 2000; also Leffler, 2000.

220 Schlesinger, Jr., 1999.

221 Taylor, 1967, p. 318. These views reflected the position of senior US officials in the Truman Administration, and that of the British Foreign Office from early 1946. For the latter, as Anne Deighton has revealed (1993, p. 224), Moscow's actions were seen as 'coherent, well-co-ordinated, denying co-existence with the West, and aiming ultimately at world domination.'

imposition of the Soviet mould.²²² Driven by its 'historic mission' of building socialism, the SED reorganised society after the Russian model, collectivising the peasantry, bringing the banks and major industries into state ownership and subordinating the entire compass of political and social life to its own supervision and control.

The extent to which these arguments make sense of the division of Germany will be examined below, but before so doing, let us briefly consider some of the major criticisms that have been levelled against traditionalist approaches. A first point, central to the case of revisionist and most post-revisionist historians, is that, in their focus on the fact that the Soviet Union's sweep into Eastern Europe marked an unprecedented expansion of Russian power, traditionalists lose sight of the stark disparity in resources and capabilities available to it as compared to the USA and its allies. Until the early 1950s the USSR could scarcely be designated a superpower, given its lack of either global reach or nuclear capability. Its population and economy had been devastated by war. The USA, by contrast, possessed a monopoly of, and from 1949 overwhelming superiority in, atomic weapons as well as a proven willingness to use them – to fearsome military and considerable diplomatic effect.²²³ In the skies and on the oceans its military superiority was unquestioned. It possessed a global system of bases and an unmatched ability to project military power; its leaders and policymakers were, from the 1930s onwards, explicitly committed to translating that capability into global influence.²²⁴ With close to half of the world's GNP, moreover, the US economy dwarfed that of all other states, including the USSR; a lead that US policymakers were determined to maintain.²²⁵ By most yardsticks its economic superiority was far greater than Britain's had been during the latter's epoch as so-called 'workshop of the world'.²²⁶ US power was also bolstered by that of its friends and allies. Due to close historical ties between these two liberal powers, not least the bonds formed during the war itself, due to their influence over France, and due to the close connections of these three allies to other states and colonies across the globe, the cooling of relations that occurred in the first post-war years was not between two superpowers but between a regional power, on the one hand, and the sole superpower flanked by major European allies, on the other.²²⁷

A second aspect of at least some versions of the traditionalist argument that has been subjected to penetrating criticism is the assumption that the temper of a state's foreign policy will reflect that of its domestic political structures. Democracies, in this view, generally favour negotiated compromise within a multilateral order, while totalitarian regimes are hardwired for expansion – whether because a ruthless monomaniac has commandeered the ship of state, as a result of the unbalanced influence of military interests within the state apparatus, as a strategy for coping with or overcoming the economic constraints of autarky, or as a desperate means of diverting the attention of domestic audiences from internal

222 Schroeder, 1998.

223 On Stalin's fears of and admiration for Washington's development and use of nuclear weapons, see Holloway, 1994.

224 See e.g. Rostow, 1981, p. 49.

225 As an example, consider Kennan's famous adjuration: 'We have about 50% of the world's wealth but only 6.3% of its population. [...] In this situation, we cannot fail to be the object of envy and resentment. Our real task in the coming period is to devise a pattern of relationships which will permit us to maintain this position of disparity without positive detriment to our national security.' In Simons, 1995, p. 39.

226 In the 1940s, for example, the USA accounted for 82 per cent of major inventions and innovations whereas the comparable peak for Britain, almost two centuries earlier, had been 47 per cent. Lundestad, 1992.

227 Kolko, 1990, p. 23.

repression. This thesis, although influential, does not stand up well under scrutiny. The most systematic comparative study of ‘expansionary’ regimes in the twentieth century, by the American international relations theorist Jack Snyder, demonstrates that, while connections undoubtedly exist between domestic political structures and foreign policy adventurism, the relationship is far from straightforward.²²⁸

Snyder’s thesis, in a nutshell, is that every case of overexpansion by an industrialised Great Power was driven by ‘strategic mythmaking,’ defined as the belief of policymakers that a state’s security can only be safeguarded through expansion. Presuming themselves to be faced with the prospect of expansion or extinction, elites opt for ‘preventive’ aggression, leading directly to situations in which expansion and war come to seem unavoidable. In the case of the USSR, Snyder’s findings suggest that although there were periodic bouts of ‘moderate overextension’ involving ‘offensive’ diplomatic behaviour, these cannot have been a direct reflection of that country’s political system. They did not begin until 1947, nor did an offensive strategic orientation receive clear and enduring support from a majority of the political elite. Snyder also notes ‘the relative effectiveness with which the Soviets learned to retrench from these bouts of overextension.’ They were able to perceive that ‘strategic myths’ had been mistaken, a capability that he dubs ‘strategic learning’. With overexpansion defined as moderate when kept close to the point at which marginal costs outweigh marginal benefits and extreme when this point is clearly exceeded, Snyder’s comparison of the USSR with the USA and Britain, with the Wilhelmine and Nazi regimes and with Japan in the 1930s reveals not a dichotomy between moderately expansionist democratic powers and aggressive, revisionist dictatorships but a more complex pattern, as illustrated in table 2.

Table 2: Expansionary Imperial Powers of the Twentieth Century (Jack Snyder)²²⁹

	USA, USSR, Britain	Germany, Japan
Strategic mythmaking	Moderate	Extreme
Strategic learning	Prompt	Backward
Overexpansion	Moderate ²³⁰	Extreme

A third focus for critics of traditionalism has been the tendency of its proponents to conflate two quite different meanings of ‘expansion.’ One refers to the world-revolutionary aspirations of the early Soviet regime, the other to the Great-Russian expansionism that characterised certain periods from the 1930s onwards. Although the rhetoric of the former continued into the latter period, actual similarities between the two phases are difficult to find. In the earlier phase, socialist revolution abroad was to be inspired and

²²⁸ Snyder, 1991.

²²⁹ Adapted from Snyder, 1991.

²³⁰ This includes periods that Snyder defines as ‘more overexpansion’ for Britain under Palmerstone and the Unionist coalition, and for the USA and USSR during the Cold War.

supported from Moscow but not imposed by force,²³¹ and oppressed nations within the inherited Tsarist empire were granted the right to self-determination. In the later phase the opposite is found: revolution abroad was to be discouraged, 'socialism' was preferred if imposed by force, and nations of the former empire that had declared their independence were re-annexed. Although the hope, the belief even, that Europe would turn socialist within three or five decades was retained by Kremlin policymakers, the route to and nature of that socialist society was redefined. Working class-led revolution was no longer seen as its necessary basis. As George Kennan described, the temper of Stalin's foreign policy was much more 'realist' than the rhetoric implied:

From the bourgeois world, as from his political entourage in the world of communism, Stalin wanted only one thing: weakness. This was not at all identical with revolution. [...] Stalin did not want other states to be communist. He was concerned only that they should be weak, or that they should at least expend their strength not against him and his régime but against each other.²³²

Assessments of this sort were not confined to the musings of the ageing Kennan, but guided the behaviour of US policymakers in the mid-1940s, such as Henry Stimson. An important section of opinion in Washington was fiercely opposed to revolution but was perfectly content to cooperate with their Soviet counterparts, who were perceived as being interested primarily in establishing a buffer zone in Eastern Europe.²³³

In line with its non-revolutionary foreign policy, a 'flexible' approach to the 'construction of socialism' prevailed in the Kremlin from the 1930s until 1947. As Richard Day has shown, socialist construction was envisaged in this period as achievable with two different toolkits. One, obviously, was that of sovietisation by fiat. Alongside this another possibility was outlined: a gradual road to a nationalised, planned economy involving collaboration amongst a range of 'progressive forces' including the 'national' and petit bourgeoisie as well as peasants and workers. Communist Party theorists, notably Eugen Varga, proposed that socialism could assume the form of a mixed-economy based 'progressive democracy' – of which Britain's postwar Labour government was viewed as a potential future example.²³⁴ After meeting a British Labour Party delegation Stalin even declared that socialism was now possible 'even under an English king.'²³⁵

231 A partial exception, of course, was the Red Army's march on Warsaw of July 1920. However this was, as Lenin's subsequent regrets testified, a case of the exception proving the rule. It was, moreover, opposed by prominent Bolshevik leaders such as Trotsky. See Cliff, 1990, ch. 8.

232 In Horowitz, 1971, pp. 87–8.

233 Eisenberg, 1996, p. 82.

234 Day, 1995.

235 Djilas, 1962, p. 104–5. This was, admittedly, a remark made during a dinner party with Milovan Djilas and others, and as both dictator and chronicler appear in the latter's account to have been drinking, should not be read as a programmatic statement. And yet, as with the ubiquitously quoted aphorism from Stalin's conversations with Djilas – '[t]his war is not as in the past; whoever occupies a territory also imposes on it his own social system' – which was made later the same evening, with Stalin in a teasing, jesting mood and, presumably, a few more vodkas inside him, it does tally with what is known of Stalin's attitudes, namely that his understanding of socialism was 'flexible,' not a goal but an elaborated goal as a primary target but relegated behind those of the USSR's economic and political success.

In short, by the 1930s ‘the revolutionary experiment of the Bolsheviks,’ as Caroline Kennedy-Pipe describes, ‘had been replaced – some would argue usurped – by a security-minded Stalinist regime’.²³⁶ Moscow began to play the diplomatic game according to the same rules that had been normalised and perfected over the course of the nineteenth century: that, in a multipolar order each Great Power’s primary interest lies in establishing and maintaining its own sphere of influence, with international order being upheld fundamentally by power balancing but also through occasional Great Power conferences and within the multilateral organisations. By the 1930s the coordinates that guided Soviet foreign policy were formed by the Triple Entente (alliance with Britain and France) and Rapallo (alliance with Germany), and were complemented by rapprochement with the League of Nations. Revolutionary uprisings elsewhere threatened these arrangements and were opposed and in some cases suppressed by Communist parties, most notoriously in Catalonia. Communist parties were encouraged to subordinate themselves to mainstream nationalist movements such as the Guomindang in China. The Comintern renounced the strategy of fomenting ‘world revolution’ in favour of the promotion of the ‘national interest’ of the Soviet state; it became, to borrow Duncan Hallas’s formulation, a ‘subsidiary agency for the defence of [the USSR’s] industrialisation and of the bureaucracy which directed it.’²³⁷ Its subsidiary nature was reflected in the ease with which its burial was arranged. The degree to which it had broken from classical Marxist ideas was symbolised in Stalin’s evocative injunction upon the Comintern’s dissolution: ‘patriots of all freedom-loving nations, unite!’²³⁸

Theoretically, Moscow could no doubt have pursued a ‘revolutionary nationalist’ foreign policy by encouraging Communist parties in Western Europe, Greece and Asia to take power. But no prominent figure in the Kremlin advocated this strategy.²³⁹ It continued to support Communist parties outwith the bounds of its sphere of influence only in so far as they were *not* committed to revolution. In Europe, where Communist-led forces were on the point of taking power, as in Greece in 1944, it was only pressure from Moscow that enforced restraint.²⁴⁰ Greece was not an exception but the rule: of the other apparent exceptions – the Communist Parties of Yugoslavia and China – none were encouraged by Moscow to take power until that outcome was inevitable.

236 Kennedy-Pipe (1998, p. 53) locates the watershed at 1933, as the Comintern’s ultra-radical turn was coming to an end. Others, to my mind convincingly, contend that the ultra-radical policy of the late 1920s was little but posture, a reflex of Stalin’s fight against Bukharinite policies on the domestic front and, as such, a product of the Communist Party’s nationalist turn. During this period, Isaac Deutscher reminds us (1966, p. 400), Stalin ‘attached incomparably more importance to a single factory newly built in Russia than to all the great expectations of revolution abroad.’ For Duncan Hallas (1985, p. 126), the Comintern’s leftism of the period, by isolating Communist parties from working-class movements, rendered them ‘abstentionist,’ impotent, and as such non-revolutionary. This, he argues, may not have been the intention behind the ‘ultra-left’ turn, but in its outcome suited Stalin’s interests.

237 Hallas, 1985, p. 125.

238 Stalin’s actual words were: ‘The dissolution of the Comintern is proper and timely because it facilitates the organisation of the common onslaught of all freedom-loving nations against the common enemy – Hitlerism. [...] It facilitates the work of patriots of all countries for uniting the progressive forces of their respective countries, regardless of party’. Hallas, 1985, p. 158.

239 Holloway, 1994, p. 167. See also Mastny, 2002.

240 Churchill had complete confidence that Stalin would not encourage resistance in Greece, remarking that ‘Stalin isn’t going to butt in. [...] He’ll let his people be beaten up in Greece for the sake of his larger plans.’ Wittner, 1982, p. 27. Djilas’s account of Stalin’s opinion (1962, p. 164) shows Churchill’s judgment to have been spot on: ‘do you think that Great Britain and the United States – the United States, the most powerful state in the world – will permit you to break their line of communication in the Mediterranean? Nonsense. And we have no navy. The uprising in Greece must be stopped, and as quickly as possible.’ When the uprising continued, Stalin raised no objection to Britain’s armed intervention – an attitude that Churchill was to reflect when Stalin suppressed the East German uprising nine years later. On the extent of control over Greece exerted by the Communist-led resistance in 1943–4, see Woodhouse, 1948, esp. pp. 146–7; Newsinger, 2002.

Taken together, these three criticisms of the traditionalist perspective suggest a fourth, namely that the USSR's fundamental antagonism to Western imperialism was in fact terminated under Stalin. 'Marxism-Leninism,' in a formal sense, continued to guide Soviet policy but was reworked as boosterism for Soviet industrialisation. In Stalin's eyes, as Bialer has put it, 'an internationalist communist revolutionary was whoever supported the Soviet Union above all else.'²⁴¹ In some phases of Stalin's rule Soviet communism was draped in the regalia of Russian chauvinism, and largely indistinguishable from other imperial nationalisms.²⁴² The emphasis at other times was upon the perception of external threat, the injustice of the international order (reflecting the sense of Russia's relative weakness) and the need for its revision. At all times, however, the Stalinist approach to security issues proceeded along power-political lines, either in multilateralist guise or in overtly imperialist form.²⁴³ Russia's bouts of expansion – notably, in the postwar years, its successful reach into Eastern Europe and Korea as well as the less fruitful bids for influence over the Dardanelles, Iran, Manchuria and Libya – can be read quite simply as the acts of a conservative, imperialist regime, its momentary revisionism having been fuelled by rapid economic growth and military victory.²⁴⁴

Post-war plans

Recent research into plans for the postwar settlement by the allies in general and Moscow in particular has tended to accentuate several aspects of cooperation and conflict between the 'Big Three'. More is now known about disagreements amongst policymakers of the respective powers, as well as of dissonances between strategic policy set in capital cities and the details of its implementation by local officials. Reflecting internal differences as well as evolving contradictions between them, the policies of all four Allies, it is now generally held, were erratic and contingent.²⁴⁵ Some of the internal disagreements within the US administration – between conservatives and liberal New Dealers, for example – have been very well aired. But A. J. P. Taylor's speculation as to the 'logical' and 'ruthless' nature of its policymaking notwithstanding, exactly the same applied to Moscow. Stalin 'never laid out a clear approach to any of the problems before him,' Melvin Leffler has suggested:

He was chiefly occupied with safeguarding his own power, his regime, and his country's security. Beyond these fundamental concerns, Stalin's ideas were confused and contradictory. He possessed no distinct strategy on how to pursue his ambitions

241 Bialer, 1986, p. 180.

242 But it was no less ideological for that. Some confusion exists on this point, given the puzzling proclivity of sovietologists to equate ideology with Marxism. Zubok and Pleshakov, for example, speak of ideology being 'shelved' by Stalin in the early 1940s in favour of a strategy that was constructed around traditional balance-of-power considerations (1996, p. 34). In this way, Zubok and Pleshakov are using the term, rather misleadingly, as a synonym for 'subversive of the international system.' Thus, revisionist powers that seek to disrupt, especially if this involves the use of fifth columns, are acting ideologically whereas *status quo* powers and the well-established diplomatic techniques that they deploy are not. This very confusion, I would argue, is itself ideological in a richer sense of the term: acting to conceal the normative nature of assumptions that reflect the prevailing order. See also Pleshakov, 2000, pp. 237–8.

243 For recent research that tends to confirm this conclusion, see Holloway, 1994; Goncharov et al., 1993, p. 219, (see also pp. 220–1 and *passim*); also Yergin, 1990, esp. p. 222.

244 On the foray into Manchuria, see Westad, 1993.

245 Leffler, 1996, 1998, 2000.

while retaining Allied support. He acted expediently, zigged and zagged, and uttered pious clichés. Neither his comrades in Moscow nor foreign Communists nor Allied statesmen could discern clear policies, because there weren't any.²⁴⁶

To my knowledge, no evidence has been unearthed to indicate that the Kremlin was in possession of a master plan for imposing Soviet structures in Eastern Europe. The emphasis of most recent studies is upon the multiplicity and flexibility of Soviet plans and upon the ferocity of bureaucratic, ideological and personal rivalries both within the Kremlin, and between the Moscow leaders and their lieutenants in the field.

Despite Stalin's 'zigs and zags,' two broad strategic commitments governed Soviet foreign policy in the immediate aftermath of the war. The first was that the wartime alliance should continue. Soviet policymakers and diplomats in the 1941–7 period were centrally involved not only in the conferences of the Big Three but also in the formation of inter-allied occupation authorities as well as institutions of multilateral Great Power governance such as the United Nations. Particularly with regard to the occupations of the Axis countries the Soviets strongly favoured the establishment of a shared general framework with its allies within which a stable world settlement could be negotiated.²⁴⁷ Stalin's repeated insistence that the shared interests of the Great Powers were not merely contingent but permanent may not have been a deeply held belief but does seem to have represented a sincere hope.²⁴⁸ The second commitment, however, was to expand Soviet influence, at the very least into a buffer zone around its eastern and western borderlands. The Kremlin's initial postwar aims, as David Holloway has described them, were 'to consolidate Soviet territorial gains, establish a Soviet sphere of influence in Eastern Europe, and have a voice in the political fate of Germany and – if possible – Japan'.²⁴⁹ In these areas policies were pursued that, as Vladimir Pechatnov has written, primarily reflected 'traditional' goals of 'geostrategic dominance'.²⁵⁰

Given Britain's pursuit of a hegemonic role within a loose bloc formed by Western Europe and the Commonwealth, and given Washington's sudden discovery of a 'security interest' in areas adjoining the USSR (notably Eastern Europe and Korea), were the Kremlin's geostrategic goals not bound to clash with those of its allies? With the benefit of hindsight the answer, of course, is a straight affirmative. But in 1944–5 influential voices on all sides believed that agreement over spheres of influence could indeed be reached, with areas of mutual interest being controlled within a multilateral framework. Moscow insisted upon its *glacis* in Eastern Europe and hoped for acceptance of a similar sphere in Manchuria but denied that these contradicted the interests of its allies (or indeed the spirit of the Atlantic Charter).²⁵¹ Stalin may have been a

246 Leffler, 1994, p. 40.

247 Varsori, 2002, p. 2; Mastny, 2002, p. 68.

248 For this reason among others, the idea – voiced notably by Gaddis (1997) – that a dichotomy can be drawn between the Western democracies that espoused collective security and valued non-violence and a Soviet Union that perceived security solely in terms of the intimidation and elimination of challengers, does not withstand scrutiny.

249 In Leffler, 2000, p. 49.

250 In Leffler, 1996. Pechatnov bases his claim upon three recently discovered memorandums written by top Soviet officials (including Andrei Gromyko) in 1944–5. See also Zubok and Pleshakov, 1996; Norman Naimark, 1995; Wilfried Loth, 1998.

251 A revealing story in this connection is recounted by Fernando Claudin (1975, pp. 398–9): when asked by Stalin for his support for the establishment of a Soviet sphere in Eastern Europe, Anthony Eden reminded him of the principles of the Atlantic Charter. Eden's riposte, according to Claudin, must surely have been a polemical feint, as the allies were all aware that the Charter was not aimed at denying *them* their spheres of imperial dominion.

megalomaniac but was not blind to the relative weakness of his hand. He recognised the USA's pre-eminent position and was even prepared to accept that its interests, in contradistinction to those of the USSR, were genuinely global.²⁵² The Soviets positively welcomed American power into Central Europe: all of their proposals for the treatment of post-war Germany, for example, involved an American presence as an integral feature; at some points they even appeared to be more committed to a long-term US presence in Europe than was Roosevelt himself.²⁵³ For Moscow, an agreed carve-up did not seem impossible, with the USA retaining its traditional spheres as well as a new hegemonic global role, and Britain acting as a hegemonic maritime power in Europe counterbalanced by the USSR as the major land power. The ill-famed percentage agreement in which Stalin granted Churchill a free hand – or '90 per cent' of one – in Greece in exchange for the same in Romania (and 75 per cent in Bulgaria) indicated in its outline and spirit some of the principles envisaged on both sides.²⁵⁴ Even the Americans, at Yalta at least, showed a tolerant attitude towards the USSR's intention of establishing a security belt in Eastern Europe.²⁵⁵

Both Britain *and* the Soviet Union could conceivably have accepted roles as junior global policemen within a postwar grand alliance. The fly in the ointment, however, was that for all sides, multilateral arrangements were also prized as means of exerting influence beyond their own established spheres. This was, to take a critical example, Moscow's main motivation in supporting four-power control over Germany. But when faced with the choice between prioritising newly-won spheres of influence and developing forms of multilateral control, all sides were to abandon the latter without a great deal of internal conflict.

Marshall Plan and Truman Doctrine

The transition from wartime alliance to Cold War hostility was an incremental and interactive process. From Washington's perspective the major milestones were the installation of pro-Soviet governments in Poland, Romania and Bulgaria, Soviet intransigence at the 1947 Moscow conference, the establishment of the Cominform, the Prague coup, the Berlin blockade and Mao's armies' victories of 1948–9. In the Soviet view the sources of friction derived, initially, from the Western allies' refusal to consider power sharing in Italy and Japan, the replacement of the Roosevelt administration by Truman's and the 'atomic diplomacy' of Hiroshima and Nagasaki, followed in 1946 by the toughening of Washington and London's stance on the political situation in Eastern Europe, on Germany's future and on the sharing of atomic secrets, and in 1947–8 by the Truman doctrine, the Marshall Plan and the negotiations for a North Atlantic treaty.²⁵⁶

252 Yergin, 1990, pp. 103–4.

253 Kennedy-Pipe, 1995.

254 In retrospect Churchill claimed that the proposed divisions were intended as temporary. Yergin (1990) shows, however, that the minutes of the meeting indicate otherwise.

255 Kennedy-Pipe, 1995, pp. 58–9.

256 Varsori, 2000, p. 292; Leffler, 1996; Kolko, 1990. On the added urgency given to Moscow's creation of a security belt following the US's explosion of the Bomb, see Zubok and Pleshakov, 1996, p. 43. On the effect upon the Soviet negotiators of the announcement of the Truman Doctrine, timed to coincide with the start of the Moscow Conference, see Horowitz, 1971, pp. 69–72.

It would, of course, be misleading to see these developments as having steered a clear line towards Cold War. Those of 1943–5 largely involved a tempering of multilateralism by *realpolitik*; they were in essence confirmed by all sides at Potsdam, with the Western allies insisting that the USSR have no benefits and influence in the West and, for their part, renouncing all claims in the East in exchange.²⁵⁷ Thus, Stalin's grip over Poland and the Western allies' hold on Italy seem to have been seen by all parties as a tacit *quid pro quo*.²⁵⁸ In the 1946–7 period, however, a sequence of crises 'security dilemmas' developed that began to turn tensions between allies into frontlines.²⁵⁹ Although an element of mutual misunderstanding was clearly present to some degree, both sides feared that recently-gained influence or territory could be lost. For the USA, a liberal world economy and relatively 'open' spheres of influence were fundamental aims. London was concerned to maintain Britain's Great Power status, exclude the USSR from Western Europe and the Mediterranean, and effect the retention of US forces in Europe, and the Attlee government saw itself as the Americans' partner in overseeing European recovery.²⁶⁰ For their part, the Soviets' key objectives were influence over Germany and a sphere of control in Eastern Europe. Both the USA and USSR were revisionist powers, with express interests in extending their influence in Europe, East Asia and the Near and Middle East and in prising colonies from the Western Europeans and Japanese. Despite their mutual commitment to negotiated spheres of influence and to shared projects – notably the occupation of Germany – at Yalta, Tehran and Potsdam and under the aegis of the UN, these strategic objectives tended to lead to clashes, with each of the revisionist powers fearing that an undesirably large portion of the world might fall under the influence of the other. As Peter Binns describes:

From the American rulers' side their exclusion from eastern Europe (and then from China) was not something that they had fought a war for. From the Russian side too, the reemergence of an anti-Russian alliance of America, western Europe, and, worst of all, a reinvigorated and rearmed west Germany, was something that their whole wartime politics had been devised to prevent.²⁶¹

Disagreements over the carve-up of world territory, moreover, were inextricably bound up with political economy. As discussed in chapter one, capitalist states' interests in securing the reproduction of the relations upon which they depend give them a pressing 'security interest' in international economic as well as geopolitical affairs. National security, as Barry Buzan reflects,

257 Lundestad, 1992, p. 163.

258 Kennedy-Pipe, 1995, pp. 37–8; Mazower, 1998.

259 The security dilemma, a concept developed by international relations theorists from the 1950s, draws attention to the way in which the security measures that states themselves define as defensive can all too easily be interpreted by others as potentially threatening. The latter, prudently assuming the worst-case scenario, respond with policies that they may define as defensive but which others may well interpret otherwise. This can be thought of as a prisoners dilemma situation in which all actors arm themselves in order to avoid a 'sucker's payoff' even though mutual disarmament could be a preferable outcome for all. In this manner the concept has opened up for international relations theory a range of explanations of international crises that, with realism, holds to the core image of states as 'self-helping' actors in an anarchic system but which do not depend upon or imply the crude realist assumption that state behaviour reflects an innate drive for power. Rather, states with interests in nothing but self-preservation would still be liable to enter into conflict thanks, ultimately, to the inherent openness of defensive policies to misinterpretation. It now features as a stock concept in explanations of the origins of the Cold War, especially in postrevisionist interpretations, with their emphasis upon the pattern of challenge and response, action and reaction by both superpowers rather than the aggressive expansion of one alone. See Jervis, 1976; Buzan, 1983; Parrish, 1997; Collins, 1997; Leffler, 1994.

260 Anne Deighton (1993, p. 235) summarises Britain's position as being determined by opposition to perceived Soviet expansionism, combined with (and presumably solidified by) a belief that its interests, whether in Europe, the Mediterranean or Middle East, could suffer from Soviet-American *rapprochement*, 'for such a collaboration could have left Britain herself an impoverished second-rank power, without a world or European role. Anglo-American solidarity was needed both to confront Soviet power and as an affirmation and bulwark to Britain's great-power status.'

261 Binns, 1983, p. 21.

may well depend on continued control over external economic factors, [...] and so class interests will determine a national security perspective with a substantial external orientation. In these ways, patterns deriving mostly from the international economy insinuate themselves into, and become inseparable from, the whole problem of national security. The structure and functioning of the international economy as a whole becomes a central factor in the security concerns of many of the states bound up in it.²⁶²

In the 1940s the 'insinuation' of the international economy into US-Soviet relations took the form of a developing clash between the former's aspiration to a global free trade regime and the latter's interest in establishing an influence over Germany and firm control in Eastern Europe. At several levels the two sides evinced similar dynamics – both being imperialist powers, with revisionist claims that were fuelled by the experience of economic success and war victory.²⁶³ But the embryonic Cold War conflict was also conditioned by the stark differences between the two. One, the world's strongest economy, stood to gain from global trade liberalisation. Its economy had emerged from the war enormously strengthened. The tools available to it for exercising hegemony included a full range of options, including dollars and diplomacy, support for democracies or dictatorships, a variety of forms of soft and hard power. The other, the most economically backward of the Great Powers, possessed an impoverished and military-centric 'hegemonic toolkit.' It had suffered greater wartime damage than almost any other country, with the loss of some 27 million souls and economic damage that some estimates put at well in excess of \$100 billion. Even the simple task of postwar reconstruction demanded stupendous levels of capital investment.

Given the USSR's economic inferiority and consequent reliance for influence upon political-military methods, the commitment to free trade even of Roosevelt's multilateralist-inclined administration was bound to lead to friction.²⁶⁴ But with the advent of the Truman administration, Roosevelt's 'grand design' was put on the back burner. The difference between the two administrations, as Bruce Cumings has written, was a matter of means, not ends – the goal for both being American hegemony in the postwar world. Yet, as he points out,

means make a difference, and with Roosevelt gone, the balance shifted toward those who preferred classic nationalist methods: the use of military force and occupation, direct confrontation with the Soviets, and the establishment of definite territorial boundaries.²⁶⁵

Although a fair summary of the different tempers of the two administrations as exemplified particularly in the Korean arena, Truman's administration was not solely reliant upon 'classic' methods but also proved adept at innovating, above all in the form of the quite original, *indirectly* confrontational and 'internationalist' methods of the European Recovery Programme.

262 Buzan, 1983, p. 186.

263 Both regimes also carried explicit ideological agendas, both claimed popular mandates that transcended particular national interests, and both 'offered themselves as uplifting lessons in political-economic experimentation to a world where cynicism was rampant.' Agnew and Corbridge, 1995, p. 66.

264 For this reason even Roosevelt, who is regarded by some as having been determined to prevent security dilemmas arising between the allies, set an agenda that served to do precisely that.

265 Cumings, 1981, p. 130.

In its major purposes the Marshall Plan was, as Michael Hogan has summarised, an exercise in pursuing the 'double containment' of the Soviet Union and of Germany through the integration of the latter with the rest of Western Europe:

An integrated economic order, particularly one headed by supranational institutions, would help to control German nationalism, reconcile Germany's recovery with France's economic and security concerns and thus create a balance of power in the West sufficient to contain Soviet power in the East.²⁶⁶

Simultaneously, Hogan suggests, it represented one part 'of a grand design for remaking the Old World in the likeness of the New.' It is perhaps best regarded as the first in a long series of US-led initiatives, guided by the vision of the USA as the core of an Atlantic corporate liberal bloc and exerting hegemony over a defeated and weakened Europe.²⁶⁷ The project involved a restructuring of the world economy along lines similar to the 'corporative' order that was emerging in the USA, the tempering of the autarkic instincts of the Western European elites, and – at least for many senior US officials – 'advancing American interests over Soviet resistance.'²⁶⁸ The economic integration of Western Europe and its coordination with the USA thus occurred in tandem with the defining of the USSR as beyond the pale, a rival influence to be 'contained'.

The Marshall Plan was designed to wean countries of Central and Eastern Europe from the USSR. It was explicitly construed as a programme of 'political warfare';²⁶⁹ built upon earlier strategies of deploying aid and credit as tools of influence;²⁷⁰ and can therefore quite accurately be described as an attempt to undermine the spheres of influence agreed in Yalta and Potsdam.²⁷¹ Those within the Soviet sphere that signed up would find themselves enmeshed within a Western-dominated Atlantic economy; if they refused, it was hoped, Western European integration would act, more slowly but just as surely, as a gravitational attraction upon them.²⁷²

Although Moscow's urgent need for US credits led to serious consideration of Marshall's proposal, it was known thanks to espionage that the Plan was to go ahead whether or not they sought involvement: significant renegotiation was out of the question.²⁷³ Nor was it a secret that the strings attached would commit recipient states to act, broadly speaking, in accordance with US economic priorities: to coordinate their post-war recovery plans and alter their pro-Soviet economic orientation in favour of broad European integration. Eastern European resources were to be used to help the revival of Western European industrial growth, and the penetration of Western capital into Eastern Europe would be facilitated, thereby

266 Hogan, 1987, p. 27.

267 Van der Pijl, 1984, p. 28; Calleo and Rowland, 1973.

268 Hogan, 1987, p. 53.

269 Gaddis, 1996, p. 121; NSC 10/2, National Archives and Records Administration, RG 273, Records of the National Security Council.

270 For example, the use of lend-lease to reduce Britain to a financial satellite of the USA; or the recalling of shipments of supplies to the USSR by Truman, shortly after his inauguration, in order to encourage Moscow to re-think its strategy in Eastern Europe. Witness, too, Marshall's threat to Italian voters that an electoral victory for Communist Party would jeopardise the supply of aid. See Loth, 1988, p. 90; Horowitz, 1971, p. 83; also Mastanduno, 1998.

271 It was also presented to Congress explicitly as an anti-communist programme. Had it not been, the requisite budget appropriations could well have been rejected by an isolationist Congress. Cf. Bideleux, 1996, p. 176.

272 Gaddis, 1996, p. 121.

273 Narinskii, 2002.

endangering the Soviet position in the region. 'But most of all,' according to Melvyn Leffler's diagnosis of Moscow's behaviour, 'the Soviets understood that the Marshall Plan required the revival of West German industry, particularly coal production. The specter of German revival contributed to Stalin's decision not to participate.'²⁷⁴

Ironically perhaps, western efforts to loosen the Soviet hold over Eastern Europe through the offer of Marshall Aid therefore served the opposite purpose. For Moscow, as the newly available documents attest, it marked a watershed.²⁷⁵ The response, which was simultaneously aimed at bringing troublesome (i.e. autonomous) Communist parties in Eastern Europe and the Balkans into line, was a sequence of acts of 'ham-handed imperialism,' to borrow Zubok and Pleshakov's term: the refusal to allow Eastern European states to sign up for Marshall Aid, the establishment of the Cominform, and the consolidation by coercive means of Moscow's hold over Eastern Europe.²⁷⁶ These responses were 'ham-handed' essentially because Moscow could not substitute aid packages of its own. They symbolised economic weakness as much as political and military strength: Moscow's newly-gained dominions, several of which were economically more advanced than itself, could only be maintained as allies, ultimately, by direct political incorporation into its informal empire through the 'sovietisation' of state and economy.

In the revisionist analysis the Marshall Plan appears, quite convincingly to my mind, as a milestone in 'America's expansion into the entire world,'²⁷⁷ one element in a broader process of informal empire-building that saw the USA deploy its preponderance of power on a variety of fronts – military occupation, international organisations, foreign aid – in order to press the world into acquiescence with American interests. However, it was also the moment when that project ran up against the buffers in Eastern Europe, and when the US's liberal universalist aims shrank to the narrower Atlanticism of NATO and the OEEC.²⁷⁸ Even that minimal Atlantic project, moreover, could not be taken for granted. In these critical years US power was at its zenith and yet highly vulnerable. For one thing, the American economy teetered on the brink of a downturn. More significantly, much of Western and Southern Europe as well as East Asia was wracked by economic and social collapse, imperial decay, revolutionary nationalist movements and civil war. Industrial production in Europe actually fell in the first part of 1947, and was perceived by US policymakers (and many Europeans themselves) to be in severe crisis. The crisis, according to Alan Milward was not especially grave, was caused in part by one-off factors such as the weather, and can be seen in retrospect as a temporary blip.²⁷⁹ However, the UN index of European industrial production (for which 1938 = 100), having risen from 68 to 83 over the course of 1946, did then fall back to 78 in the spring

274 Leffler, 1998.

275 Zubok and Pleshakov, 1996, p. 50.

276 Zubok and Pleshakov, 1996, p. 51.

277 Kolko and Kolko, 1972, p. 31; Paterson, 1992, p. 27. 'New Left revisionism' in its weakest forms is open to the charge of economism, in that US foreign policy is depicted as a reflex of the aggressive search for markets and investment opportunities overseas. For Gaddis (1983), this reductive approach derives from the Leninist thesis that economic goals determine political behaviour, and is refuted by evidence showing that the USA in fact tended to favour the preservation of existing regional economic blocs and that Marshall Aid and Lend Lease were geared to producing political as well as economic effects. As an argument against the crudest forms of revisionism these points may count but most revisionist texts are far more nuanced (e.g. Paterson, 1992). Gaddis's assumption that Lenin's theory of imperialism is reductionist, moreover, is a travesty; see Howard and King, 1989, esp. pp. 257–8.

278 Calleo and Rowland, 1973, p. 42.

279 Milward, 1992.

of 1947. At the time this did contribute to a very widespread perception of crisis.²⁸⁰ For former president Herbert Hoover, indeed, the world was 'involved in the most dangerous economic crisis in all history.'²⁸¹ These circumstances, in Washington's eyes at least, threatened to strengthen existing 'autarkic instincts' and undermine the civil society of Western Europe and Japan upon which its long-term political and economic interests were seen to depend. There was a genuine concern that economic stagnation in Western Europe could ultimately, in Leffler's words, endanger 'the interests, power, and even survival of the imperial democracies of Western Europe upon which America's own security was perceived to depend.'²⁸² As one US official warned,

If these areas are allowed to spiral downwards into economic anarchy, then at best they will drop out of the United States' orbit and try an independent nationalistic policy; at worst they will swing into the Russian orbit. We will then face the world alone. What will be the cost, in dollars and cents of our armaments and our economic isolation? I do not see how we could possibly avoid a depression far greater than that of 1929-32 and crushing taxes to pay for the direct commitments we should be forced to make around the world.²⁸³

Thus, although the Truman Doctrine and Marshall Plan were motivated by the desire to 'roll back' the USSR they were also responses to a real fear: the prospect – improbable no doubt, but certainly possible – of economic collapse and political strife in Western Europe.²⁸⁴ Given the proven ability of the Soviet-type economy (STE) to force growth in an unpromising environment through suppressing the short-term imperatives of profitability, such conditions could be better suited to that model than to its liberal American rival – rather as muddy hillsides bring out the tractor's superiority over the Cadillac. Worse still, such a scenario could herald the shifting of Western Europe's resources to the USSR. Let us turn now to the manner in which these contradictions were played out in Germany, a country that was central to the postwar plans of both Washington and Moscow.

Post-war plans for Germany

If the origins of the Cold War in general may be understood as an incremental and interactive process that was governed by the uneven strengths, differing economic and political structures and clashing interests of the various parties, these dynamics were particularly evident in the German arena. During the war a degree of agreement with regard to the basic principles that should govern the treatment of post-war Germany existed amongst the allies that in retrospect seems surprising. Germany, all parties agreed, was to be punished and weakened. 'Industrial disarmament' was to prevent its remilitarisation. It was to suffer some reduction in territory, particularly in the Prussian region, or even full-scale dismemberment. All four allies, but especially Russia, were to receive reparations from Germany's assets and from its post-war

280 Girault, 2002.

281 Eisenberg, 1996, p. 285. One cannot help but wonder if Hoover's choice of words involved an element of projection, given his own role in exacerbating the downward spiral of what really had been the most serious global crisis in modern times.

282 Leffler, 2000, p. 52.

283 Armstrong *et al.*, 1991.

284 Lairson, 1998, p. 73.

production. Measures to prevent remilitarisation and the revival of Nazism were to be adopted, including industrial de-concentration, and democratisation.

However, each interpreted the operationalisation of these principles in line with their own perceived interests and political culture. For example, the Soviets and, in the first two years of occupation, the Americans were comparatively willing to 'denazify' and 'de-cartelise'. The British and, from 1947, the Soviets were stronger exponents of economic planning and nationalisation. For Moscow the primary concern was to prevent German remilitarisation and to extract the maximum in reparations – even if this meant restricting living standards to Eastern European levels.²⁸⁵

Moscow, according to the useful summary in Norman Naimark's major study on the subject, considered three possible scenarios for post-war Germany: 'the Sovietization of the Eastern zone, the creation of a unified Germany run by the SED, or the establishment of a demilitarized "neutral" Germany'.²⁸⁶ Western scholarship has traditionally assumed that the first (or especially the second) of these were the preferred outcomes. More recently, however, a revisionist position has come to the fore. This contends that the third option was perceived not only as rational and realistic, but as more viable and quite possibly more desirable than the second, and certainly preferable to the first.²⁸⁷ Although the Soviet preference for maintaining a unified Germany has always been evident, the newly available documents, according to Norman Naimark among others, confirms that there was no master plan in Moscow to impose a communist government on either Germany as a whole or the SOZ, nor was there any overriding rationale that framed the Kremlin's policies toward Germany. Policy, rather, was improvised by the many competing bureaucracies which had a role in the occupation. If there was one motive that dictated Soviet behaviour during the first years of occupation it was, as Naimark has shown, the desire for accommodation to be reached with the western powers on the unification, demilitarisation, and neutralisation of the country. Having fought an extremely costly campaign against Hitler's armies Moscow's paramount concern lay in preventing the emergence of a re-militarised and anti-Soviet Germany – particularly in combination with one or other major power – and, secondarily, in recouping some of the costs of war. Its preferred medium-term option was therefore four-power control over a unified Germany. The Soviets, Naimark writes,

were too desperate for a share of West German coal and mineral resources and too worried about the integration of West German industrial power into an American-dominated Western condominium to give up easily on hopes for a neutral Germany.²⁸⁸

It was only if the wartime alliance remained intact that the spectre of an American-German pact could be exorcised and only then, in addition, 'was there a prospect of receiving reparations shipments from the Reich's heavy industrial centre along the Ruhr.'²⁸⁹ Even a bourgeois Germany, within a jointly-administered

285 Woodward, 1976; Kuklick, 1972, p. 201.

286 Naimark, 1995, p. 466.

287 The major exponents of this thesis, alongside Loth, are Carolyn Eisenberg (1996, 1998) and Norman Naimark.

288 Naimark, 1995, p. 351.

289 Loth, 1998, p. 8.

framework, would have close ties to the USSR and would implant Soviet influence firmly within Central Europe. A divided Germany by contrast would have left the Soviets, as William Smyser has put it,

with the least desirable part of the country. [Their] occupation zone had few assets. It had a narrow coast on the Baltic without a major seaport [...] and the Saxon industrial area that had once been the pride of Germany but that had been eclipsed by the Ruhr.²⁹⁰

The Soviet zone also possessed, in the *Erzgebirge*, rich deposits of uranium that had been discovered mid-way through the war and which were soon to become a major source of supply for the Soviet's nuclear programme.²⁹¹ But that was about it. The significance of this point is that it has assisted historians in reconstructing Soviet motives, for it highlights the degree to which Stalin's decision to shift Poland's border westwards to the Oder and Neisse rivers, by transferring Upper Silesia to Polish control and prompting the flight of much of its German-speaking population, critically weakened the economic viability of any state that may have been envisaged in the Soviet Occupied Zone (SOZ) of Germany.

The case that the Soviets postponed any thoroughgoing economic and political transformation to an undefined future, in the interests of maintaining the wartime alliance, is well established. In 1945 Stalin instructed German Communist Party (KPD) leaders that, in the medium term at least, there would be 'bourgeois-democratic government in Germany,' and that the KPD programme proclaimed as its paramount goal not socialist but 'bourgeois democratic' revolution.²⁹² The conditions for 'socialism,' Ulbricht told his followers, were not ripe, and would not be until 'the workers of *all of Germany, as well as the progressive democratic forces*, are united.' [italics GD]²⁹³ In the meantime, economic policy was to be modelled less on the experience of Lenin's Russia than on the prescriptions of Adam Smith, including the 'absolutely unhindered development of free trade and of the initiative of private entrepreneurs upon the foundations of private property.'²⁹⁴ The 'bourgeois' character of the KPD's goals did not emerge from a theoretical analysis of, or empirical research into, the lack of revolutionary potential of the German masses. Rather, as one former KPD leader recalled, it simply reflected Moscow's strategic assessment of its interest in maintaining cooperative relations with the western allies.²⁹⁵

As to the 'democratic' component of the 'bourgeois revolution,' was this to mean Western-style parliamentary democracy? Or was it simply a euphemism for dictatorship, as the term 'people's democracy' was later to signify? For Wilfried Loth the answer is clear:

290 Smyser, 1999, p. 33.

291 Holloway, 1994.

292 Grieder, 1999, p. 12.

293 Ulbricht, 1946, p. 18.

294 Leonhard, 1961, p. 349. The expediency with which 'bourgeois revolution' was pursued in the SOZ was such that the Russians were at times in a position to 'out-liberal' their American negotiating partners. Molotov, for example, during negotiations with George Marshall, once claimed that the poorer economic performance of the western zones was due to the USA leaving land in the hands of the pre-capitalist *Junker* class, which represented an impediment to agricultural improvement. Eisenberg 1996 p. 302.

295 Staritz, 1995, p. 77. See also Staritz, 1980, p. 73.

Stalin wanted no GDR. He wanted neither a separate state in the Soviet Occupation Zone nor a socialist state in Germany at all. Instead, he sought a parliamentary democracy for all of Germany, one which would rob fascism of its social base and one which would allow the Soviet Union access to the resources of the Ruhr industrial area. This was to be achieved through the shared responsibility of the victorious powers.²⁹⁶

Loth's evidence that the Soviets considered a democratic polity a serious option draws upon the KPD programme and numerous comments and proposals by Soviet and German Communist leaders. Even as late as 1947, at the Moscow Council of Foreign Ministers, Molotov could propose that Germany be governed by a freely elected provisional government based on the Weimar Republic's constitution, and that this proposal be put to a plebiscite.²⁹⁷ Above all, the case rests upon the fact that a substantial degree of party pluralism and numerous free elections actually were permitted in the early years of the SOZ.

But does this point to the conclusion that a socialist Germany was *not* a desired outcome? A tremendous debate between revisionists, notably Loth, and their critics continues to rage, and this is not the place to add to it. To this author, in brief, it seems probable that, unlike in Austria, the Kremlin was only willing to consider democratic governance in Germany if it was either coupled with land reform and substantial restrictions on big business (to which the western powers were unlikely to agree), or if it arose in conjunction with a leftward shift in German public opinion, perhaps in the aftermath of economic collapse. In such circumstances the prospect of Soviet influence being extended into West Germany within an institutionalised framework of party pluralism such as existed initially in the SOZ, could plausibly have been agreed to by the Russians.

Whether or not this conjecture is near the mark, there is no doubt that consideration of parliamentary governance in Germany was, for the Kremlin, subordinate to the issue of German unity, and in particular to the aim of establishing institutional mechanisms of Soviet influence over the German economy. It was disagreements over these issues, notably in respect of reparations and over control over the Ruhr, that lay behind the Russians' prevarication over the formation of a Central Administration for Germany in 1946.²⁹⁸ As four-power plans for a unified polity began to unravel, and given the SED's poor showing in elections in 1946, followed by the popularity of Marshall Aid amongst the West German public, the prospect of parliamentary-democratic institutions bringing greater influence to Moscow began to fade. Stalin and his lieutenants did keep pressing, until 1947, again in 1949 and even into the 1950s, for an 'all-German' formula and remained prepared to make significant concessions on questions of democratic governance (although not on reparations and quadripartite control of the Ruhr) in order to achieve this.²⁹⁹ However, as the Western position hardened, and as the SED leadership consolidated behind the goal of constructing an independent state, the option of the rapid transformation of the SOZ into a 'sovietised' satellite of Russia, as favoured by powerful figures in the Kremlin, such as Zhdanov, and his protégé in the Soviet Military Administration of

296 Loth, 1998, p. xi; also pp. 32–4.

297 Eisenberg, 1996; 1998, p. 50. Marshall turned the proposal down, invoking the traditional elitist reason that majority decision-making may not be for the best.

298 Loth, 1998, ch. 2.

299 Naimark, pp. 301, 351; Eisenberg, 1996. Zubok and Pleshakov, 1996, p. 50. On Stalin's reluctance to support the proclamation of a separate East German state, see also Loth, 1998. There is also some evidence that portrays the Soviets as lacking the faith in the 'exportability' of their own system that is usually credited to them. According to one Soviet official, for example, in 1944–5 'the politburo had no confidence in the possibility of successfully Sovietizing even those parts of Germany occupied by Soviet troops.'

Germany, Sergei Tiul'panov, as well as by key figures in the SED leadership (notably Ulbricht), gained ground.³⁰⁰

Western plans for Germany

Of the Western allies it was Britain, alongside France, that was least sympathetic to the prospect of a unified Germany, with Foreign Secretary Ernest Bevin taking a lead role in the drama of division.³⁰¹ Deeply suspicious of the USSR and with Bevin, a bitter opponent of communism, as Foreign Secretary, Clement Attlee's government set out to sow dissent between the 'Big Two' and, in particular, to obstruct Moscow's aims of developing a functioning central German administration that would bring it influence over the (British-occupied) Ruhr. To counter this danger, the Foreign Office proposed 'to revise the Potsdam Agreement with the intention of ensuring that any agreement with the Russians (and the French) about the next stage in the control period for Germany would be based upon our own terms.' Although well aware that its proposed course of action was 'tantamount to splitting Germany into two,' the Foreign Office argued that, by precluding Soviet attempts 'to penetrate and undermine the economic and political structure of the Western zones, particularly the Ruhr' this represented the lesser evil.³⁰² The priority, in the words of another Foreign Office memorandum that is as striking for its prophetic nature as for its insight into Whitehall hypocrisy, was

to keep the iron curtain down [...] and build up Western Germany behind it [...] so that when a reasonable standard of living and prosperity has been restored there is more chance of drawing Eastern Germany towards the West than vice versa. The moment will then come for unifying Germany, which we hope by that time will [...] have reached a sufficiently advanced standard of political education and economic rehabilitation to enable the democratic and federalised system which we advocate to have a fair chance of success.³⁰³

As Anne Deighton has demonstrated in her meticulously documented monograph from which this quote is taken, the Attlee government was the first of the 'Big Three' to decide that Germany should be divided. Whitehall pioneered the idea that the western zones of occupation could be tied into Western Europe, and played a pivotal role in keeping the USA in Europe. It also, moreover, showed considerable cunning in accelerating the division of Germany whilst successfully pinning much of the blame for the outcome onto the Soviets.³⁰⁴

If it was the British who made the running on the division of Germany, the greater part in actually realising that outcome was Washington's. The USA was not predestined to play this part in German history. In 1944–5 its position was quite close to Moscow's. After initial plans for dismemberment were discarded, the

300 Staritz, 1991, p. 689; Loth, 1998, p. xi.

301 Smyser, 1999.

302 Deighton, 1993, p. 121.

303 Deighton, 1993, p. 123.

304 Deighton, 1993, p. 124. The British Chancellor of the Exchequer even claimed that the original plan to divide Germany had been exclusively Russian in origin. Leaman, 1988, p. 22.

emphasis was placed on establishing economic unity. A punitive policy was championed, above all by the Treasury, and enshrined in the Army's planning document JCS 1067.³⁰⁵ On this basis, the US military administration in Germany was able to cooperate quite successfully with the Soviets; in the first two years, indeed, friction was less than with the French or British. There were, however, sceptics and dissenters amongst American policymakers and officials. Already by 1945-6 some were warning of Moscow's expansionist intentions. In the spring of 1946, for example, Kennan warned that Germany would fall under Moscow's sway, unless the Western allies determined to carry

to its logical conclusion the process of partition which was begun in the east and to endeavor to rescue western zones of Germany by walling them off against eastern penetration and integrating them into international pattern of western Europe rather than into united Germany.³⁰⁶

On this basis, one would think, a plausible case can be made that Washington's decision to divide Germany resulted from a determination to pre-empt even the risk, as Kennan saw it, 'of giving the Russians the chance to dominate the whole country,' a concern which, although voiced initially by a minority of officials such as Frank Roberts in London and, of course, Kennan himself, then gathered strength through 1946 until, by the spring of 1947, it had become the new consensus.³⁰⁷ But to argue in this way leaves certain crucial questions begging. In 1945-6 all sides believed that indigenous Communist parties in the liberated countries of Europe may well receive widespread support in free elections. Indeed, one of the major factors contributing to the reluctance of the Western allies, especially Britain, to establish central administration for Germany was that they feared that the KPD would do well in elections in the West if Soviet influence was able to be exerted through German-wide structures.³⁰⁸ But by the end of 1946 there were good reasons to discount such a scenario. In November, a Foreign Office document argued that Soviet policy may be 'moving in the direction of a weak though united Germany, not necessarily under Communist control, and away from a Communist-controlled state'.³⁰⁹ Nor was the Kennan view unchallenged on the American side. US officials in Berlin, as Carolyn Eisenberg has documented, knew

that communism was very weak in western Germany, that the Soviets had little realistic hope of changing this state of affairs, that the Socialist Unity Party's grip on the Eastern zone was tenuous, and that the practical meaning of unification would be the extension of democratic influences beyond the Elbe. It was also their perception that the Russians were economically desperate and so fearful of West German militarism that they would pay a high price for amalgamation.³¹⁰

The USA, moreover, was militarily far stronger than the USSR, particularly with respect to its atomic monopoly. Its initiatives in the period, especially regarding Germany, were premised upon the belief that Soviet leaders were not likely to opt for a war they knew they could not win.³¹¹ Any fears that Whitehall

305 Whereas the Soviet promulgation of a punitive approach was based upon motives of reducing Germany and reequipping the Soviet economy, American thoughts on the matter were also informed by the suggestion that eliminating German competition would benefit industries of other allied nations such as Britain. Eisenberg, 1996, pp. 42-3.

306 Kolko and Kolko, 1972, p. 137.

307 Gaddis, 1996, p. 116; Deighton, 1993, p. 100.

308 Deighton, 1993, pp. 70-76.

309 Deighton, 1993, p. 118.

310 Eisenberg, 1998, p. 53.

311 Leffler, 1990, p. 38; Eisenberg, 1996, pp. 104, 112.

and Washington may have harboured over communist insurgency in, or of a Soviet bid for mastery over, Germany should properly have *waned* between 1944 and 1947. Given the lack of persuasive evidence of Soviet expansionism, why, then, did the perceived need to resist Soviet demands and weld together West Germany grow? Carolyn Eisenberg suggests that four interlocking factors are critical to explaining Washington's policy shift on these conjoined policies.³¹² First, between 1945 and 1947 liberals progressively lost control of US German policy. Secondly, the continued separate administration of the Western zones limited the Americans' ability to check the British predilection for 'socialist experimentation' and the exploitive approach to German resources of the French. Thirdly, production in the western zones continued to languish, and this was perceived as posing an obstacle to West European recovery. Finally, in the context of western Germany's economic stagnation, Soviet demands for reparations from out of current production and for a claim to a role in the Ruhr posed a challenge to the American economic programme for Germany in particular and for Western Europe as a whole.

The last of these, in particular the wrangle over whether imports or reparations should be the 'first charge' upon German exports, can appear as a rather tangled and technical question, but its importance is difficult to overstate. Reparations deliveries were, as both sides well knew, a lever of economic control, a matter of power.³¹³ The Soviet position, as proposed at Potsdam, was that reparations should take priority, and that 'imports into Germany should, if necessary, be confined to the amount which could be paid for by exports from Germany after reparations schedules had been met.'³¹⁴ The Americans were willing to reach agreement on the level of reparations payable to the Soviet Union, France and, in lesser quantities, themselves. But increasingly they insisted that trade should take priority, that 'the necessary means must be provided for payment of imports approved by the Governments concerned *before reparation deliveries are made from current production or from stocks of goods.*'³¹⁵

Disputes over the priority to be accorded reparations vis-à-vis trade were openly voiced at Potsdam, where they were already becoming interwoven with a second strategic quarrel. For Stalin, the agreed level of reparations for the USSR, being so much higher than for the Western allies, justified a Soviet claim to reparations from the SOZ and, in addition, to dismantled plant and supplies of raw materials from the Western zones, above all the Ruhr.³¹⁶ The Western allies, particularly the British, were far from content with the precedent that such an arrangement might set. The point was made by Churchill in his objection at Potsdam that he 'could not accept a position whereby the Soviet Government had the right to dispose unconditionally of all supplies in the Russian zone, and to the east of it, and at the same time to share in the products from other zones.'³¹⁷

312 Eisenberg, 1998, p. 53.

313 On the Americans' sensitivity to this, see Kuklick, 1972, p. 179.

314 Woodward, 1976, p. 444.

315 Woodward, 1976, p. 443. Italics in the original.

316 With regard to the prerogative to supplies from Soviet-occupied zones, he was putting into words what had in any case been Soviet practice: by the time of the Potsdam conference the Soviets had already removed 1,575 factories from their zone in addition to a thousand or more trainloads of industrial materials from areas east of the Oder. Laufer, 1999, p. 76. Jochen Laufer argues that this revealed Moscow's basic unilateralist inclinations and thereby contributed to tensions with the Western allies. He omits, however, to mention that the practice was tacitly sanctioned at Potsdam, and need not in itself have led to irreconcilable differences.

317 Woodward, 1976, pp. 426-7.

Although disputes over the priority and sourcing of reparations already flared at Potsdam, they were to become a running sore when concern over the state of the German economy persuaded American planners that the punitive policy agreed at Potsdam (and embodied in their own JCS 1067) should yield to an emphasis on restoration. If German coal production was not raised, Truman had worried as early as May 1945, 'we will have turmoil and unrest in the very areas of Western Europe on which the whole stability of the continent depends.'³¹⁸ Both Britain and the USA began to fear that giving priority to reparations would weaken the recovery of Germany and Western Europe *and* give Moscow an influence over the western zones that would not be matched by reciprocal concessions in its own.³¹⁹ An additional concern in Washington was that, given the substantial flows of aid flowing from its treasury into the German economy, were the Russians to be allowed to draw reparations from current production of the western zones they would in effect be drawing aid from the USA.³²⁰

Whereas Roosevelt had been inclined to take a lenient position towards Moscow's reparations policies and – although aware that 'the Russians are going to do things their own way in the areas they occupy' – had not believed that their zone would become a sphere of outright control rather than influence, the Truman administration was sceptical. With conservatives in power, and with the economies of the western zones in trouble, a markedly more bullish approach was pursued. In the spring of 1946 food shortages prompted the USA to suspend the export of wheat and provision of reparations from its zone, hurting both the French and the Soviets. The USA was now willing to use control over reparations from its zone as a political lever.³²¹ A strictly controlled, dilatory reparations policy in Germany now became an operative part of Washington's programme for the political and economic rehabilitation of Europe as a whole. It signalled, moreover, that if forced to pick between two desperate parties Germany would come first.³²² Priority, as Daniel Yergin has put it, was to be accorded to the integration of Germany 'into a multilateral, but American-dominated, world economic order before reparations (in effect, aid) went to the Soviet ally.'³²³

Washington's new strategy, involving the turn from a punitive to a restorative approach to Germany, followed by the unilateral establishment of a British-US 'bizone' in mid-1946, did not reflect a preconceived plan to bring about Germany's division. The reparations dispute was motivated in part by pragmatic considerations.³²⁴ Even the formation of the bizone, which brought most of Germany's industries under one combined administration, was supported by some US officials as a show of determination that would expedite the formation of quadripartite institutions rather than hasten the economic and then political

318 Leffler, 2000, p. 51.

319 They may also have feared, Bruce Kuklick has speculated, that reparations from current production would pave a way towards bilateral trade relations between the Soviets and the Germans, with Germany becoming the supplier of heavy industry to the Russians, and pulled gradually into their orbit. Kuklick, 1972, p. 174.

320 Kindleberger, 1991.

321 Eisenberg, 1996, p. 211.

322 The implication, as Kuklick has argued, was that the 'United States favored German stability over Russian reconstruction to such an extent that it would, in fact, virtually sacrifice the eastern zone of Germany to achieve this end.' Kuklick, 1972, p. 173. See also Kolko & Kolko, 1972; Eisenberg, 1996.

323 Yergin, 1990, p. 96. 'By itself, the effort to mitigate the hunger and misery of ordinary Germans was scarcely controversial,' Eisenberg has pointed out (1996, p. 84), '[b]ut it was a significant choice to alleviate Germany's distress ahead of those whom it had attacked.'

324 For example, that taking decisions over reparations on a zonal basis might help to avoid a general clash over the 'first charge' principle.

division of Germany.³²⁵ US intransigence was also motivated in part by the desire to minimise costs for the American taxpayer. For the many US officials with connections to German business, moreover, immediate motives of self-interest underpinned their desire for German industry to be rapidly restored. However, this diversity of motives amongst US policymakers only became welded together behind a consensus strategy of dividing Germany in the course of 1946–7, as a result of the gathering perception that western German industrial output was stagnating (through the latter half of 1946) and then even falling (in the first quarter of 1947).³²⁶ This concern, coupled with the belief that German recovery was critical to that of Western Europe, led directly to the conclusion that even the Soviets' minimum agenda in Germany could brake West Europe's growth trajectory and possibly even thwart the region's integration into the nascent Atlantic economy. And if that were to occur, and if agreement with the British, French and Russians could not be reached on breaking down inter-zonal barriers, the Americans feared, they would 'face a deteriorating German economy which will create a political unrest favourable to the development of communism.'³²⁷ The perception of crisis and the darker threats that it bore served, critically, to heal divisions within the US camp. Those such as General Clay who had been more inclined to cooperate with the Soviets now moved closer to Kennan's previously marginal position. Following the formation of the bizon, the Americans determined, in early 1947, not to compromise with Soviet demands on current reparations. With this, prospects of a four-power deal over Germany vanished.³²⁸

If US officials had believed that their stronger bargaining position could induce the Soviets to agree to introduce further democratic reforms in their zone, they could not have been more mistaken. Moscow gradually abandoned its hopes in receiving further reparations from the western zones and reduced the deliveries of goods that it had pledged from its zone in exchange.³²⁹ Inter-zonal exchange declined, mutual distrust grew and the Kremlin's option of pursuing plans for a neutralised 'democratic' Germany faded. Prospects of the Soviets acceding to US plans or making major compromises faded precisely during the period of greatest concern at the economic plight of the western zones. It was in this same situation of political stalemate and economic crisis that the Marshall Plan was born and this, in turn, imparted further momentum to the formation of an independent West German state and thus to the Stalinisation of the SOZ.

325 Deighton, 1993, p. 108. As General Clay wrote in July 1946, 'This is forcing the issue and while we hope it will expedite quadripartite action, it may just have the reverse effect.' In Yergin, 1990, p. 231.

326 Industrial production in the three western zones rose from 22 per cent of the 1938 figure at the start of 1946 to 31 per cent in the third quarter, where it rested in the fourth, before falling to 24 per cent in the first quarter of 1947. Rostow, 1981, p. 31.

327 Yergin, 1990, p. 229.

328 Eisenberg, 1996, p. 301.

329 Ultimately only a fraction of the promised quantities of goods were delivered to the western zones. Sutton, 1973, p. 26.

Reparations and the economy of the Soviet Zone

At Potsdam the Allies agreed upon a reparations bill of twenty billion dollars, of which the USSR was to receive half. All sides, upon arrival in Germany, set about dismantling equipment and sequestering raw materials – including the British and Americans during their temporary occupation of the eastern zones. As it transpired, the latter, their economies far less devastated by war, took less than planned while the USSR took far more. The Soviets' intention had originally been to draw reparations from all zones of Germany, but by far the greatest part came from its own – in the end, indeed, it took more from its zone than it had originally demanded from the country as a whole.³³⁰

The USSR tapped the assets of its zone in five main ways: the dismantling of factories and equipment and their transport to the USSR;³³¹ profits from Soviet-appropriated industries (SAGs); goods transfers; the deportation to the USSR of workers (including entire teams of scientists with their assistants and technicians); and the transfer of technical and scientific information.³³² Even excluding the latter, the level of reparations, at around a quarter of GDP each year, represented an enormous outlay, far greater than Germany's payments following the First World War – greater, indeed, than reparations paid by any country during the last century. Entire industries were transferred, including either in their entirety or majority: the aluminium, magnesium, magnesium oxide, tyre, and chemicals industries, about 80 per cent of the automobile and iron and steel industries, three quarters of engineering and locomotive production, two thirds of the zone's electrical and optical industries, and around half of its cement and paper industries.³³³ At least 2,100 and possibly as many as 3,400 factories were shipped east, along with stockpiles of raw materials, the contents of bank vaults, and about half of the zone's railway network.³³⁴ In Raymond Stokes' estimate the SOZ 'lost at least one-third of its industrial capacity across the board, and even more in research-intensive and war-related industries'.³³⁵

Such was the extent of this depredation that, as Stokes has put it, Soviet policy threatened 'to kill the goose that laid the golden egg'.³³⁶ From 1946 the aims of plunder and 'industrial disarmament' – the dismantling of mainly heavy industry with the purpose of weakening Germany's long-term military capacity – were de-emphasised in favour of maintaining a functioning economy capable of providing significant levels of reparations from current output. A particularly effective method of surplus transfer was instituted in the form of Soviet-owned enterprises, the 'SAGs'. Already in 1945 certain strategic enterprises were taken into Soviet ownership, most notably the 'Wismut' uranium mining company, with its 200,000 employees digging for the Soviet nuclear programme (and cheered on by the slogan 'The more the ore, the stronger the cause of peace!')³³⁷ In the late 1940s the SAGs accounted for at least a third of the

330 Karlsch, 1999, p. 29.

331 The Soviets declared dismantled factories as 'war booty' or 'war trophies' rather than reparations, but for the purposes of this argument the distinction is not relevant.

332 Sutton, 1973; Nettl, 1977; Karlsch, 1993; Stokes, 1990.

333 Venohr, 1989, p. 22; Stokes, 2000; Karlsch, 1999, p. 13.

334 Karlsch 1999 p. 11.

335 Stokes, 2000, p. 22.

336 Stokes, 2000, p. 29.

337 Kowalke, 1999, p. 82.

zone's industrial output; alongside Wismut they included most of what remained of the zone's high tech industries, the entire chemicals sector and much of the engineering and optics industries.³³⁸ There is no doubt that they did enable a more efficient transfer of 'golden eggs' to the USSR, and yet the consequence for East Germany was little different to that of outright plunder, namely to 'deny the fruits of a significant part of the productive capability of Soviet-zone industry to the Soviet zone'.³³⁹

The Kremlin's prioritisation of reparations over exports not only contributed to the developing rift with London and Washington. It did little either to foster a positive image of the Soviets amongst a German population that had been subjected to over a decade of anti-communist and anti-slav propaganda. Already as the Red Army entered the country in January 1945, mass rape, together with the plundering of homes and businesses by Soviet soldiers, had predictable effects upon attitudes to the 'liberators'.³⁴⁰ Rape, looting and arbitrary arrests were so widespread that an anti-Soviet mood had even developed amongst many communists.³⁴¹ The factory dismantling and other reparations of the post-war decade served only to further blur the line between liberation and occupation.³⁴²

Had the plan been to plunder and withdraw, the attitudes of the local population would have mattered little to Moscow. Had the intention been to move directly to the 'Sovietisation' of its zone, the doubts of communists in particular would have mattered rather more, but would not have posed insurmountable problems. If, however, the option of reaching agreement with the western allies in constituting Germany as unified, demilitarised and neutral and with a substantial Soviet influence was envisaged as a serious option, the permissive attitude of Soviet leaders and commanders to the attacks by their troops on German civilians, followed by the wholesale dismantling of the Eastern zone's economic infrastructure could not have been better designed to undermine it.

That reparations helped to undermine the USSR's *political* credit amongst the local populace is clear. The *economic* effects of the reparations policy, by contrast, can be interpreted in sharply different ways. One line of argument, developed by a German economic historian, Christoph Buchheim, begins from the correct assumption that the withdrawal of equipment and produce need not impact negatively upon aggregate economic growth.³⁴³ In a situation of excess capacity, as existed in many industries of the SOZ in the initial post-war period, the loss of physical equipment may not diminish output but, by stimulating new investment, instead promote increased productivity over the longer term: the more the dismantling, the greater the incentive to invest. Reparations from running production, moreover, by boosting demand

338 Stokes, 2000, p. 28.

339 Stokes, 2000, p. 29.

340 On private looting by Soviet soldiers (perpetrated especially by those from regions, such as the Ukraine, that had borne the brunt of the Nazi occupation) see Naimark, 1995, pp. 91, 167. The same author (p. 181) quotes a sardonic ditty of the time that comments on the ironies of 'liberation': 'Welcome, liberators! / You take from us eggs, meat, and butter, cattle and feed. / And also watches, rings, and other things. / You liberate us from everything, from cars and machines. / You take along with you train cars and rail installations. / From all this rubbish - you've liberated us!'

341 Gniffke, 1966, p. 36. According to another former Communist, 'all the comrades [...] told us horror stories about raped women and arbitrarily arrested anti-fascists. They showed us the partitions in cellars, sheds, and attics where they hid their women-folk from the Russian "liberators."' Brandt, 1970, p. 152.

342 Given the rhetoric of the Soviet occupying forces and their local allies, the situation was not without irony. As Brecht remarked drily, '[t]he appropriation of production by the proletariat is occurring simultaneously with (and, to many, appears geared towards) the deliverance of the products unto the victor.' In Staritz, 1976, p. 95.

343 Buchheim, 1999.

should act to spur growth.³⁴⁴ Ingenious though Buchheim's argument may be, it has been subjected to some searching criticisms. A first point is that the reduction of the railway network became a long-term bottleneck with adverse consequences across the economy. This is conceded by Buchheim but seen as an exception. Other economic historians, however, argue that, given that an inflow of foreign capital could not be expected, similar problems were bound to result from the dismantling of other sectors. The case is crystallised in Rainer Karlsch's observation that if Buchheim's thesis were taken to its logical conclusion those branches of industry subject to complete deconstruction would have enjoyed the greatest growth prospects.³⁴⁵ In the short run, the depletion of raw materials stocks and limited funds available for investment in non-reparations sectors placed stringent limits on growth, and were a major cause of the flattening out of industrial production in 1948–9.³⁴⁶ In the medium and long terms, the priority accorded to investment in reparations-producing industries deprived other sectors of funds, with deleterious consequences for their competitiveness.³⁴⁷ The bottlenecks that dismantling created in these sectors, moreover, did not simply represent the removal of 'excess' capacity. The sheer scale of the dismantling, as Karlsch and Raymond Stokes have both shown, drastically limited the zone's industrial and technological potential, bequeathing the territory 'a severely diminished capability of mustering the capital investment necessary to reconstruct them and a curtailed capacity for research and development both in terms of personnel and organizations.'³⁴⁸ Finally, and of equal long-term significance, was the fact that dismantling and reparations not only deprived the SOZ / East German economy of much of its output in quantitative terms, but Soviet economic needs also dictated that, as Corey Ross writes, it

produce particular *kinds* of goods for reparations. This required significant structural changes such as the expansion of heavy machine building and even the establishment of whole new industrial branches such as shipbuilding. These new branches were not only very costly in terms of investment and subsidization, but also numbered among the least innovative areas of industry.³⁴⁹

The shortages produced by the dismantling of whole branches of industry, such as basic chemicals, led to a concentration of investment upon these, at the cost of more sophisticated sectors.³⁵⁰ As a result, the effects even of the immediate postwar dismantling, not to mention reparations from current production and the payment of 'occupation costs,' affected the economy well into the 1950s.

In the immediate aftermath of the war the economy of the SOZ had not been badly off compared to that of the western zones. It was relatively weak in R&D capacity and lacked high-quality coal reserves, but had not been damaged disproportionately by allied bombing. By contrast with STEs elsewhere in Eastern Europe, initial conditions (of 1945) cannot form even part of the explanation of its later backwardness vis-à-vis Western Europe. The onset of reparations, however, did undermine its economic prospects.

344 These considerations, Corey Ross points out (2002, p. 76), were held at the time by western politicians; 'the punitive Morgenthau Plan stipulated that there should be no reparation out of running production' precisely because these would boost demand and growth. Neither the Roosevelt nor the Truman administration needed lessons in Keynesian economics.

345 Karlsch, 1999, p. 11.

346 Adomeit, 1998, p. 64.

347 Nettle, 1977, p. 161.

348 Stokes, 2000, p. 23.

349 Ross, 2002, pp. 84–5.

350 Karlsch, 1993, p. 91.

Dismantling in particular negated industrial capacity much more effectively than wartime bombing had done: the overall capacity losses in the SOZ were, as a result, some ten times greater than in the Western zones.³⁵¹ As to reparations from current production, these were, again, vastly higher in the SOZ/GDR, as shown in table 3.

Table 3: Reparations from current production, as percentage of GDP³⁵²

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1958	1959
GDR	48.9	38.4	31.1	19.9	18.4	16.4	14.6	12.9	5.4	4.7	4.4	1.5	0.4
FRG	14.6	12.8	9.0	6.0	5.8	7.1	6.0	3.8	n.a	na.	n.a	n.a.	n.a.

The SOZ/GDR also experienced far greater problems as a consequence of the economic division of Germany than did the combined western zones, its dependence upon the western zones being more than twice that of the reverse relationship.³⁵³ At the war's end only about 2 per cent of Germany's coal and crude iron, and 7 per cent of its steel were produced in the SOZ.³⁵⁴ Its principal industrial branch, metal processing, was almost entirely dependent on raw and semi-finished materials from the Rhineland and Ruhr. With the politicisation of East-West trade that ensued with the Berlin blockade and counter-blockade of 1948 many of the SOZ/GDR's industries became divorced from their traditional raw and semi-finished material suppliers in the Ruhr, and from western markets. The structures of its internal and foreign trade were wrenched eastwards, entailing much greater levels of dislocation than the loss of eastern markets to the FRG. The FRG's coal and iron ore were produced domestically or imported via the sea and/or well-developed western European waterways, while the GDR was obliged to import Soviet coal overland by rail.³⁵⁵ Furthermore, large numbers of residents of the SOZ/GDR, disproportionately those of working age, emigrated to the West. The combined loss to West Germany and the USSR of skilled workers, managers and technicians deprived the country of vital 'human capital,' contributing to a skills shortage in the East as against a greater and growing skills supply in the West. In a self-reinforcing loop, migration flows tended to exaggerate the developing economic gap between the two Germanies.

In short, from 1947 Germany's western zones began to enjoy a multi-billion dollar inflow from the capital-rich USA, a series of aid packages that, although not a huge component of national income, did play a critical role in overcoming bottlenecks and underpinning a successful currency reform.³⁵⁶ The SOZ, in contrast, suffered wholesale dismantling by its capital-hungry 'fraternal brother' as well as disproportionate

351 Karlsch, 1993, p. 232.

352 Adapted from Karlsch, 1993, p. 234 and Küchler, 1999, p. 128.

353 Zauberman, 1964, p. 274.

354 Müller-Enbergs, 1991, p. 101.

355 Küchler, 1999, pp. 108–110.

356 On the positive, if indirect, effects of Marshall Aid upon the currency reform, see Borchardt and Buchheim, 1991; Buchheim, 1993. Alan Milward (1992, p. 111) contends that Marshall aid was not *absolutely indispensable* to the overcoming and prevention of bottlenecks in western Germany. But without it, he concedes, greater levels of public investment would have been necessary. Marshall Aid did, therefore, 'permit the continuation of the existing economic policies,' notably those that were geared to the creation of a liberal market economy. To this extent his argument can be reconciled with the thesis that Marshall Aid represented a corporatist rescue of the German market economy.

dislocations resulting from economic division and the Cold War politicisation of trade. A fragment of the former *Reich*, it was reliant on suppliers and buyers in western Germany, and on trade with other western economies. Its businesses were thus woven into a rapidly disintegrating economic fabric. Although in 1945–7 the economy of the SOZ – thanks not least to a relatively high degree of workers’ self-management and to state direction – had recovered quickly, by 1948 it had been overtaken by the western zones. Already in 1950 productivity in East Germany had collapsed to roughly half that of the FRG.³⁵⁷

Dismantling, dislocation, and the loss of skilled workers provide only part of an explanation of the different long-term trajectories of the two economies; it would be absurd to blame East Germany’s ultimate demise upon them. Nonetheless, it is difficult to avoid the conclusion that the economy of the GDR did not simply become inferior to its western twin, it began as such.

Conclusion: the uneven division of the post-war order

Informing the attempts of the ‘Big Two’ to construct spheres of influence in Central Europe, this chapter has shown, were the specific requirements of US and Soviet capital accumulation. The war had seen the USA leap to global economic and military pre-eminence. Washington shifted decisively away from isolationism and towards an external offensive aimed at forging a US-led liberal world economy. This required, *inter alia*, the embedding of the German economy into networks of international exchange. The Soviet economy, in comparison even with Britain or France let alone the USA, was underdeveloped and terribly war-torn. It stood to lose from acceding to a US-led global trading system, but could gain from the plunder of physical capital and the deportation of skilled workers. Moscow was less inclined than its West European allies to follow Washington’s lead; being less indebted and militarily stronger than they it was also better positioned to advance an alternative.

Given that Stalinist foreign policy was generally of a conservative temper, and that this was recognised in Washington, these differences in capabilities and interests did not predestine the two sides to a relationship of entrenched hostility. But where windows of possible agreement did exist, as in the German situation, they were small. Due to the contradictions outlined above each side had reason to fear that compromise would earn a ‘sucker’s payoff.’ During the tussles and tensions of the pre-Cold War years, the different forms and interests of the various powers began to connect and snag in unpredictable ways. As frictions developed into security dilemmas, identities hardened around antagonistic images and ideologies; emerging Cold War rivalries began to take on a momentum of their own, and any remaining windows slammed shut.

The sovietisation of the East German economy occurred not as a result of a Soviet master plan but due to the interactive process discussed above. That specifically Soviet economic structures were established there was in part, as Naimark has described, because that was the only way the Soviets knew how to do

357 Merkel and Wahl, 1991, pp. 10, 64; Schneider, 1988, p. 16. Others put the figure at 40 per cent, or as high as 68 per cent (Ross, 2002, p. 77).

things.³⁵⁸ This Soviet 'habit' was also widely regarded at the time as a successful model, given Russia's rapid return to Great Power status and its triumph over a far more advanced power. It was a model that seemed to work. On the other hand, the fact that no viable alternative model could be introduced in East Germany also reflected the Soviet's weak position. Given America's construction of an integrated 'embedded liberal' West European economy, Sovietisation represented the only way by which the SOZ could be glued into Moscow's empire – a mixed economy would inevitably have been pulled away from the Soviet orbit, as planners in all the 'Big Three' capitals were well aware. The creation of 'socialism' in East Germany thus appears as a consequence of weakness, a default position. It was seen as a second best to a neutralised bourgeois Germany; it resulted from Soviet and East German Communists' fears that a unified country would be sucked into the US-led Atlantic economy. The division of Germany, driven more by the western allies than the Soviets, left few options for the East German economy other than integration into the emerging Soviet bloc, and regulation via the Plan.³⁵⁹

In short, the GDR came into being as a highly problematic conquest. The red flag over the *Reichstag* symbolised a first high watermark of Soviet imperialism, but the GDR was a small territory, carved out of the middle of the former '*Reich*'. It was nothing but brute geopolitical (and geo-ideological) rivalry – the developing antagonism between the USA and Russia – that, in Charles Maier's phrase, 'locked the Russians into reinforcing East Germany's national status.'³⁶⁰ Its economy, not to mention popular support for the Soviet occupation, was drastically weakened by reparations, and yet it was defined competitively against a Western counterpart that was thriving, in part due to Atlantic integration and infusions of Marshall Aid. As a result of the entity's relative economic and political weakness the Kremlin was, until the mid 1950s, torn between establishing the GDR as a strong front-line state and relinquishing it as unviable. Soviet politicians and advisors continued to consider and advocate schemes for reunification, even as the Soviet army was busy installing a new ruling class to construct and take over zonal institutions of economic and political power. This was an extraordinary situation: the GDR had come into existence as a frontline state, later to be cemented into the Soviet empire as its very keystone, and yet for its first decade Moscow barely believed in its viability.³⁶¹

358 Naimark, 1995.

359 That the logic of events was perceived in this way by East German leaders can be seen particularly clearly in Otto Grotewohl's conversion to economic stalinisation: see Loth, 1998, p. 102.

360 Maier, 1997, p. 23.

361 Although similar doubts existed in Washington regarding the viability of the FRG these were confined to a small minority (the most prominent of whom was George Kennan).

4. 'Socialist Construction' and Crisis

The East German economy in the 1940s and 1950s, viewed from one angle, reflected the corporatist trends of the age. Even as its étatiste structures were being cemented into place the economies of Western Europe were being reconstructed along lines that ran, in certain respects, in parallel. The European Recovery Programme, for example, represented the marriage of individualistic competitive private market capitalism with 'the twentieth-century trend toward an organized capitalism characterized by national economies of scale, bureaucratic planning, and administrative regulation.'³⁶² Michael Hogan draws attention in particular to the belief of American policymakers of the time in an active partnership between business and the state; they drew upon 'technocorporatist' ideas, and lent support to ('modest') welfare programmes and economic planning.³⁶³ Both East and West witnessed an unprecedented degree of commitment to economic rationalisation and productivity growth, as well as a widespread belief in the benefits that technology would bring to the economy and to everyday life.³⁶⁴ It was these similarities that were to lead to an influential literature that portrayed the two systems as undergoing 'convergence.'³⁶⁵

From another angle the differences between the two forms stand out. The emergent structures of the West not only encouraged a greater role for trade but also for integrated systems of transnational regulation, notably the EEC. The STE form, by contrast, was geared to the construction of industries within a national framework. As outlined in chapter two, the strengths of this model had been proven during the Great Depression by the USSR, a massive and resource-rich territory, and by Nazi Germany, the second largest economy of its day, and a regional hegemon. The SED, as Michael Geyer has argued in a searching essay in comparative industrial policy, also pursued a national orientation but upon an entirely different basis.³⁶⁶ Resource-poor and plundered, its attempt to replicate, within a fragment of Germany, the type of large-scale industrial economic structures that had been developed within Hitler's '*Reich*' and '*Mitteleuropa*' or the USSR, Geyer argues, was bound to prove problematic.

To a degree these guidelines provided GDR policymakers with an operating manual that was retained until shortly before the state's demise. But it would be misleading to conceive of the economic history of the GDR as if these were manifestations of a fixed model. Restructuring and revising of structures of accumulation, including relations between enterprises and the state, technology policy and labour relations, was a constant feature of the STEs. State-led campaigns that focussed on selected 'leading links' or 'structure-determining tasks' or 'seminal processes' were aimed at hauling the STEs up to world market standards.³⁶⁷ Labour processes were periodically 'rationalised.' Planning systems were modified, slimmed down or overhauled, with incentive structures being adapted, for example, to place premiums upon the efficiency of resource and equipment utilisation and quality of output as against sheer quantity. Limited

362 Hogan, 1987, p. 3.

363 Hogan, 1987, p. 11.

364 The spirit is summed up in the 1950s American slogan 'Better Living through Chemistry' and the East German 'Chemistry gives bread, beauty, and prosperity!' Schlosser, 2001, p. 6; Sept années historiques, n.d.

365 It is perhaps no coincidence that two of the thinkers who most influenced convergence theory, Rostow and Galbraith, had worked on the Marshall Plan.

366 Geyer, 1994, esp. p. 133.

367 Bideleux, 1985, p. 154.

experiments were introduced that involved the delegation of greater degrees of initiative to enterprise managements or which encouraged profit-seeking or export-promoting behaviour.

However, major restructuring of STEs was a notoriously complicated procedure. The very mechanisms that enabled firms to invest without fear, as outlined in chapter two, also weakened the imperative of producing at globally competitive costs, with the continual restructuring that this demands. With state monopolies of foreign trade and highly monopolised domestic economies, in which the authorities were reluctant to allow inefficient firms to fold, enterprises were able to produce with relatively little regard for comparative productivity. The resulting difficulties in restructuring interacted with and compounded the 'sticky' nature of the STE crisis mechanism. In the textbook 'market capitalist' crisis, values are reduced through bankruptcies, while increased unemployment reduces labour costs and increases labour mobility. Together, these processes help to cut overproduction and raise the average rate of profit. Despite the apparent neatness of this (highly simplified) model, restructuring invariably entails conflict and friction at the company level. As Chris Harman and Andy Zebrowski have put it,

It can lead to bitter clashes between those managers who press for it and those who see their positions threatened. Each side will endeavour to use personal influence [...] to win over key figures within the firm. As a result, changes to the top management of major firms can often resemble military coups[.]³⁶⁸

Strategic clashes of this sort, moreover, tend to interact with the interests of workers and other non-bureaucratic classes; the effects of economic crisis ripple throughout society and in the process become politicised. In the STEs, of course, the politicisation of crisis management took an extreme form. There was no simple mechanism for bankrupting inefficient enterprises. In monopolistic sectors, where an enterprise's existence was practically guaranteed by the state, pressure to innovate and to replace outdated equipment was low. For these reasons, compounded by taut planning and by the propensity to labour hoarding, crises in STEs produced only a small reserve army of labour. More importantly, because economic strategy was highly politicised, with the various structures of accumulation tightly bound together under state supervision, major restructuring was inevitably an operation that bore the threat not only of serious social convulsions but also of bureaucratic conflict.

In the rest of this and following chapters, the interaction between political crisis and the construction and restructuring of the East German economy will be examined, with particular attention to the ever-changing modalities in the relations between the SED and the Soviet Union, the GDR's gradual re-entry into the world market, and industrial relations. Some attempts at restructuring, such as the 'New Economic System' and Comecon integration, contained innovative elements but ended in failure. Some, notably the building of the Wall, were seen as at least partial successes. Some, including the construction of the aircraft industry and the microelectronics industry, were highly ambitious but wasteful tragedies, while still others – including the bulk of policies in the early 1950s and throughout the 1980s – were hopeless attempts to win tricks with an ace-less hand.

Socialism by default

The 'sovietisation' of the East German economy was not a straightforward policy choice for the SED and still less for its Moscow overlords. A process determined by geopolitical conflict, it did not occur at once, or even quickly, but developed through a series of stages. 1948, when the first Plan was inaugurated, was one important date. Another milestone was 1952, when the announcement of the 'construction of socialism' was followed by accelerated industrialisation and forced collectivisation. A third was 1959, when the final drive to collectivise agriculture commenced.

As outlined in the previous chapter, the Soviet occupation of the SOZ/GDR provides a necessary but not sufficient explanation of these events; the latter were not a reflex of the former. Key players in Moscow sought to keep a variety of options open, including that of a 'bourgeois democratic' Germany. Even after the official declaration of sovereignty for its zone, the GDR remained a paradox and a problem for the USSR. Like its western twin, the new East German state was founded as a provisional entity, with a national anthem that sang of 'Deutschland einig Vaterland'. But on the Soviet side, as compared to the Western, there was little faith in the viability of its German creature; for Stalin it was to remain for several years a bargaining chip, to be exchanged for the neutralisation of Germany if (a big 'if!') suitable terms could be agreed. The new state's first government was therefore hemmed in by existential uncertainties which, in turn, left major questions hanging over the desired structures of the domestic polity and economy.

The period between the foundation of the two Germanies and NATO in 1949 and that of the Warsaw Treaty Organisation in 1955 was one in which Cold War battlelines were drawn but permanent trenches not yet dug. Even after the division of Germany, Moscow repeatedly floated the idea of an 'Austrian-type' solution to the German problem – of a reunified, democratic and unoccupied Germany predicated on geopolitical neutrality and confirmation of the borders agreed at Potsdam. Debate continues to rage over the 'Stalin Note' of March 1952, often with the same documents being used to buttress diametrically opposed views. Was Stalin's offer aimed at tricking the West into permitting an extension of Soviet influence across Germany with the ultimate aim of its sovietisation?³⁶⁹ Or was it a cynical propaganda exercise designed to attribute blame for the hardening of Cold War divisions to the other side? Was it a smokescreen to distract attention from western proposals for free elections throughout Germany? Was it a 'defensive' propaganda exercise, genuinely aimed at appealing to West German public opinion in the desperate hope of preventing West Germany re-arming and blocking its integration into Western military structures but without giving serious thought to making compromises in exchange?³⁷⁰ That Moscow rejected the Western response, which included the demand that a UN commission investigate the prerequisites for free elections, lends credence to scepticism. And yet the response to the Stalin Note also

368 Harman and Zebrowski, 1988, p. 14.

369 Gerhard Wettig's reading (1999, pp. 208–9) of the earlier drafts of what became known as the Stalin Note show that the ideal aim was for 'democracy' to be established throughout Germany with complete safeguards against any prospect of anti-Soviet re-militarisation. This, he concludes, demonstrates that the Kremlin's purpose was clearly that of the sovietisation of the whole country. This, however, ignores the possibility that the sorts of structures prevailing in the not-yet-Stalinist SOZ of 1946 would, for Moscow, have fitted the bill.

370 For sceptical treatments of the Stalin notes, see Wettig 1992a, 1992b, 1995, 1999; Laufer, 1993; Adomeit, 1998.

called for a future German state to be free to enter into coalitions. By insisting on a future Germany's right to enter military alliances the position of the FRG and its western allies can be read as an implicit rejection of Stalin's proposals.³⁷¹ This interpretation is supported by evidence that in Washington the integration of the FRG was perceived as the priority, that reunification was only to be considered *after* means had been found to bind a future Germany securely into the Western camp.³⁷² That the Soviet proposal was not simply a propaganda initiative is suggested by several other pieces of evidence: that SED leaders themselves believed that the Kremlin was indeed prepared to swap Soviet East Germany for a neutral reunified entity, and that Soviet leaders – certainly Lavrentii Beria and probably Georgii Malenkov and Molotov too – were prepared to reopen the German question a year later, once again giving serious consideration to relinquishing their half of Germany if that would improve the chances of blocking West Germany's integration into NATO.³⁷³

If Moscow was prepared to withdraw from the GDR, it was surely a strategy motivated by perceived relative gains. As Ludolf Herbst has suggested, an asymmetry existed between the importance of the FRG to Washington as against that of the GDR to Moscow. Whereas Eastern Europe could have been rebuilt after WWII without East Germany, he argues, the FRG was crucial to the 'economic reconstruction, the military security and the political integration of Western Europe.'³⁷⁴ Holding onto the GDR was therefore less important to Moscow than preventing the integration of West Germany into US-led structures. It may be the case, as Wilfried Loth has proposed, that Stalin gave priority to unifying Germany, rather than swaying indecisively between offers of negotiations and consolidating the GDR.³⁷⁵ Whether or not that is so, the two agendas – the maintenance of significant influence over at least part of Germany, and neutralisation – tended to clash. If the overtures with regard to the latter were ever seriously intended they became increasingly utopian in the context of hardening Cold War divisions and these, in turn, were strengthened by the USSR's own actions in locking the SOZ/GDR more securely into its back yard.

That the SOZ/GDR underwent 'sovietisation' resulted, obviously, from the belief on the part of Soviet and East German policymakers in the potential of their system, and in part from sheer habit, but it was also due to the lack of realistic alternatives. As discussed in the previous chapter, the Soviet regime showed some flexibility in regard to the social system that it was prepared to see established in its zone, but the economic inferiority and political unattractiveness of the USSR drastically constrained its options. Unless the appeal, and economic growth of the socialist world was to improve dramatically, a 'bourgeois democratic' Germany was bound to be pulled towards the West. In the context of intensifying Cold War competition the sovietisation of its zone thus became the sole remaining means by which Moscow could retain a position in Germany. The proclamation, in 1952, that 'socialism' was to be constructed in East Germany reflected the wishes and will of SED leaders; for Ulbricht it marked a major victory. However, his

371 Loth, 1998; Staritz, 1984, p. 181; Weber, 1988, p. 42.

372 Rupieper, 1993. There was, however, no unitary position in Washington. The Policy Planning Staff of the State Department were more favourable to serious discussion of German reunification through neutralisation. Cf. Loth, 2000.

373 On this last point a considerable literature exists; of recent additions the most noteworthy are Reiman, 1999; Kramer, 1999; and Wettig, 1999, pp. 235–91. For further evidence supportive of the case that the Stalin note was offered for serious negotiation with the western parties, see Loth, 1998, pp. 182–3.

374 Herbst, 1994, p. 188.

375 Loth, 1998, 2000.

role in pushing Moscow towards this position notwithstanding, the decision was made in the Kremlin, in the immediate aftermath of the West's cool response to the Stalin note. As such it represented a setback, perhaps even a defeat, for Stalin. It was almost as if 'socialism' had arrived in East Germany by default.

The *Leistungslohn*

By 1947 a substantial proportion of industry – 56 per cent – was already in state hands. To a large extent this resulted from the inheriting of state-owned industries from the previous regime, the appropriation of enterprises the managers of which had either fled or been driven out by their workforce, as well as the construction of new enterprises and nationalisation of existing ones specifically for the Soviet reparations programme. From 1948 a policy shift was underway involving the systematisation of planning and further rounds of nationalisation. The latter, together with the relatively rapid growth enjoyed by state-owned industries, accounts for the substantial rise – to 81 per cent – in the proportion of public sector industry by 1952.³⁷⁶ In terms of the concept adumbrated in earlier chapters, a centralised state capital was coming into being. Against the backdrop of sharpening geopolitical rivalry economic performance came to be seen, on both sides, as a crucial weapon. For the SED this was a time that demanded the 'intensification of class struggle,' a euphemism for that which in these chapters has been referred to as the 'economisation of society' – the subjugation of all spheres of life to the gods of productivity and output growth. 'The most radical challenge today,' as Ulbricht and his comrades insisted, 'is to raise labour productivity.'³⁷⁷

Imposing the productivity agenda, however, was no easy matter. East German workers in the aftermath of the war had gained a significant degree of control over swathes of industry and generally resisted the competitive culture that was now demanded. Especially where 'works councils' were strong the prevailing shop floor ethic was, as Jeffrey Kopstein has described, 'egalitarian, cooperative, defensive, and geared toward survival rather than the maximization of gain.'³⁷⁸ The main form of remuneration under Nazism, the so-called *Leistungslohn* (performance-related pay, usually measured against a 'norm'), had been resolutely opposed by the works councils, and the proportion of the workforce subject to it had declined from 80 to 20 per cent.³⁷⁹ The drive to raise productivity and output that can be dated to 1947–8, therefore, not only involved a lengthening of the working week but also centred on the usurpation of the powers of the works councils and the introduction of an instrumentarium of Taylorist techniques and productivity-raising campaigns. Schemes of 'socialist competition' were introduced in which workers (and work brigades) were pitted against one another (and were obliged in the process to commit themselves ritually to 'the Party and its production goals.' In late 1948 an 'activist movement' was initiated. Adolf Hennecke's Stachanov-style norm-busting records received media saturation. The most diligent and/or sycophantic employees were hailed as 'activist,' 'moderniser' or 'hero of labour' and earned handsome

376 Staritz, 1995, p. 196.

377 Sarel, 1975, p. 57.

378 Kopstein, 1997, p. 21.

379 Kopstein, 1997, p. 27.

bonuses, photo opportunities (and derision from their workmates). 'Brigades of Best Quality' were showered with publicity and prizes. Constant comparison with norm-breakers was encouraged through the use of 'personal accounts,' whereby each worker's 'performance' was posted on a noticeboard to indicate how far it lagged behind that of the 'activists.' By the early 1950s the *Leistungslohn* was once again in widespread use, its acceptance by workers having been encouraged in part through direct pressure and the defeat of the works councils movement but in part, too, through the carrot of lowish norms.³⁸⁰ Whereas pay differentials had decreased until 1948 they rose sharply thereafter. At the extreme, a worker could receive over six times the pay of a colleague on the same job. In society as a whole inequality increased dramatically, until a manager's earnings could exceed those of an employee by several score, or even as much as a hundred, times.

Engaged in the concurrent projects of fashioning an independent state wedded to Moscow and jacking up the rate of exploitation, the regime's earlier aim of soliciting a substantial degree of popular consent was now quietly laid aside. By 1949 all independent political and industrial organisations had been crushed or colonised by the SED. Workers were denied any legitimate means of organised collective bargaining. Opposition parties were transformed into obedient allies of the SED. The SED played a full part in the long 'wave of political justice' that marked the onset of Cold War, and which included McCarthyism in the USA, the outlawing of the KPD in West Germany, and show trials and purges of Communist parties across Eastern Europe. Attempts to ameliorate exploitation, or to challenge the absolutist prerogative of the state, risked being treated as treason. The regime appeared to fear that even a single shout of criticism or dissent, by cracking its claim to complete power, could trigger an avalanche of discontent. Laws were passed which legitimated the sentencing of any oppositional voices. In 1950 alone, 78,000 people were sentenced, fifteen of them to death, for 'political crimes' (that were defined so capaciously as to include tax arrears).³⁸¹ In 1952 the 'Law on the Protection of National Property' was passed which decreed that even petty property crime should be punished by at least a year in prison.³⁸² This was no policy of deterrence by empty threat. There are countless examples of frightful sentencing: a year in prison for a shop assistant who had stolen a two Mark bottle of perfume, three years for a worker who had stolen three-quarters of a litre of petrol from his factory.³⁸³ It is no surprise therefore that the figures for those incarcerated in the country's increasingly overcrowded jails more than doubled to 61,000 between July 1952 and May 1953.³⁸⁴

Meanwhile, the SED itself was repeatedly 'purged' of critical spirits – those with social democratic leanings, those who still adhered to earlier prescriptions of a gradual 'German road' to socialism, and sundry revolutionaries – in order to encourage the conformity and self-censorship of those who remained. Although actual show trials of party leaders were not as evident as elsewhere in Eastern Europe, many

380 Hübner, 1995, p. 41.

381 Weber, 1988, p. 26.

382 Mitter and Wolle, 1993, p. 35.

383 Roth, 1991, p. 576.

384 Diedrich, 1991, p. 44.

leading SED members were expelled or demoted during this period.³⁸⁵ Of the fourteen members of the SED central committee in 1947 ten were either demoted, expelled, resigned or fled in the following few years.³⁸⁶

‘Organise your own state!’

By most measures, economic growth was very rapid in the GDR’s first years. In 1949 alone, produced per capita national income grew by over 25 per cent. In 1950–53 gross industrial output grew by 60 per cent, as against 39 per cent in the FRG and only 6 per cent in the UK.³⁸⁷ In the same period, gross capital formation was higher than the West German level and about double that of the UK.³⁸⁸ However, it should be borne in mind that the East German growth was from a very low base indeed. Unlike the UK, output in the late 1940s was still well below the pre-war figure; unlike the FRG, dismantling and reparations left little available surplus for investment.³⁸⁹ Despite rapid growth this was a dry period for technological innovation. Rather, the emphasis was upon the construction of industries designed, firstly, to replace those removed by the Soviet Union and, secondly, to produce substitutes for embargo goods, notably steel, that had previously been imported from western Germany.

Although the 1947–60 period, taken as a whole, witnessed a steadily increasing approximation to the STE model, a critical juncture occurred in the aftermath of the 1952 ‘Stalin note.’ Upon receiving the West’s cool response, Stalin, in a meeting with SED leaders, advised that the ‘pacifist period is over’ and instructed his East German comrades to ‘Organise your own state!’³⁹⁰ Within a week of the West’s response, the SED began initial preparations to create a standing army. A policy of rapid rearmament was set in train, the economic effects of which can scarcely be overestimated. Firstly, it was expensive. For the year 1952–3 alone, fully 2 billion Marks were devoted to the military build-up – 10 per cent of the state’s already-strained budget. The territory’s economic structure, secondly, was now wrenched even further from light to heavy industry. It is no coincidence that 1952 saw simultaneous decisions to accelerate the expansion of heavy industry and to re-arm, for ‘military-political considerations,’ as one top economic official recalls, ‘were a decisive factor in the emphasis on the development of heavy industry’.³⁹¹ Thirdly, the military build-up, by enrolling 150,000 men into the army, compounded the labour shortages that had been growing as a function of rapid industrialisation and emigration.

In 1952 a series of austerity measures were introduced in order to fund the extra military spending.³⁹² Taxes and prices were raised, and a range of welfare benefits were reduced or abolished. The upshot of these measures was a rapid deterioration of living standards for much of the population. On average,

385 Grieder, 1999.

386 Leonhard, 1961, p. 363.

387 United Nations figures, cited in Cliff, 1982, p. 132; see also UN, 2000, p. 175.

388 Zauberman, 1964, p. 40.

389 Judt, 1999, p. 174.

390 Mitdank, 1995, p. 144.

391 Hans Lessing, in Villain, 1990, p. 90. See also Diedrich, 1991, p. 29.

personal consumption in 1952 was only around half the West German figure, thanks to the GDR's lower per capita GDP and consumption quota (the ratio of consumption to national income).³⁹³ From mid-1952 and especially in 1953 real wages then plummeted.³⁹⁴

Rapid growth on the basis of reduced capacity combined with increased state exactions to produce inflationary crisis symptoms by late 1952. Shortages of raw materials, labour and plant proliferated, with the energy industry being particularly badly affected. Meanwhile, semi-forced collectivisation,³⁹⁵ although intended to release labour-power for industrial expansion and to enable the state to divert resources to industrialisation, led less to the controlled movement of labour-power into the factories than to the uncontrolled flight of farmers to the FRG. In 1953 almost 40,000 fled west, leaving 13 per cent of arable land fallow, and giving rise to severe and growing shortages of meat, milk, fruit and vegetables. Empty shelves in shops now gaped absurdly behind the propaganda that garlanded the windows and which trumpeted East Germany's magnificent and uninterrupted economic progress.³⁹⁶

By late 1952 there was no concealing the level of crisis. Monthly figures for emigration showed an extraordinary rise: while in January 1952 only 7,227 emigrated, the number soared to 58,605 in March 1953.³⁹⁷ Opinion surveys carried out at the behest of the SED's central committee reported that the population was 'disinterested' in the work of the SED, and that the workers were 'hostile' to the measures taken by party and government.³⁹⁸ Urgent remedies were evidently required. Three tactics were tried, two of which were at the initiative of the SED leadership, the third being 'advised' by Moscow. The first centred on the tried and tested method of upping the intensity of labour and reducing pay. Despite the closing down of the works councils and the widespread introduction of performance-related pay, the SED in the early 1950s 'had still not gained control over the shop floor,' as Jeffrey Kopstein relates, in his study of GDR labour relations.³⁹⁹ In a series of escalating initiatives the state-run 'trade union' (FDGB) and SED attempted to enforce the acceptance of higher work norms. Initially, the effort involved campaigns to encourage voluntary acceptance. By March 1953 the line between 'voluntary' and 'compulsory' was becoming rather blurred, and yet still the campaign was meeting widespread and often successful resistance. In May the stakes were raised further, with the announcement that a 10 per cent norm rise was to be imposed by decree.

The second tactic, pursued simultaneously with the first, involved appealing to Moscow for economic aid. Towards the end of 1952 Ulbricht asked Stalin for relief, followed in February and April 1953 by urgent requests for loans and aid. Some was indeed forthcoming, but far less than had been requested. Following Stalin's death, Soviet leaders began to reassess the policies of their minions in Eastern Europe, a task that

392 Diedrich 1991 p. 19.

393 Hübner, 1995, p. 148.

394 Staritz, 1984, pp.126–9; Sarel, 1975, p. 127; Brandt, 1970, p. 185.

395 Although by no means as brutal as the Soviet precedent, coercion was widely deployed; peasants who resisted faced imprisonment as 'political criminals'.

396 Sarel, 1975, p. 128.

397 Jänicke, 1964, p. 25. Net emigration to West Germany was 133,000 in 1951, 142,000 in 1952 and 117,000 *in the first four months* of 1953.

398 Loth, 1998, p. 149.

399 Kopstein, 1997, p. 35.

was given added urgency by riots in Bulgaria and Czechoslovakia.⁴⁰⁰ In April they indicated to SED leaders that both of their favoured strategies were misguided. Ulbricht was offered a little aid but a goodly portion of 'urgent' advice.⁴⁰¹ A third course of action, the Russians insisted, should be followed: a reduction in the tempo of industrialisation and the return of forcibly collectivised farms to individual ownership. These measures were connected to a reversion in Moscow's strategic thinking to a more open and potentially conciliatory position on the German question. Ulbricht's repeated proclamations that the construction of 'socialism' was underway therefore came under especially heavy fire. These 'harmful' statements, the CPSU Presidium advised, should not be repeated: they could severely undermine the prospects of German reunification.⁴⁰²

In mid June, a package of reforms, the 'New Course,' was announced, and explicitly linked to the aim of 'establishing the unity' of Germany.⁴⁰³ Price rises were revoked, and concessions granted to farmers and small businesses, students and 'economic criminals'. The overturning of the 'socialist construction' programme was not, however, complete. SED hardliners, notably Ulbricht himself, remained in power, and – demonstrating a surprising degree of sovereignty – ensured that the reform package was less comprehensive than their Soviet brothers had advised. Critically, the 10 per cent norm rise was retained. A serious split had opened between East Berlin and Moscow, a disagreement which connected crisis management in the GDR to a conflict of interests over the payment of reparations vis-à-vis the East Germans' requests for aid, and over the future existence of the SED-state itself. Inevitably the inter-regime split was reproduced within the SED leadership itself, with Ulbricht and his allies pitted against advocates of more liberal policies (Franz Dähle, Wilhelm Zaisser and Rudolf Herrnstadt). The latter were, naturally, encouraged by the Kremlin leaders, who were beginning to seek successors to the recalcitrant Ulbricht.

Against the reformers' intentions the New Course promoted not stability but turmoil. Deepening divisions, expressed in the only partially accomplished U-turn over the policies of 'constructing socialism,' generated confusion and divisions at all levels of the SED and state, while below decks it was widely interpreted by many as a sign that the SED's time was up. A revolutionary situation developed, culminating in a mass strike and uprising on June 17th that could only be crushed thanks to the intervention of Soviet tanks and troops.

The June uprising came perilously close to toppling the regime, and could conceivably have developed into a serious challenge to Soviet control. It starkly illuminated the constraints upon the Soviet position in Germany as well as those upon the SED. Having been instructed in 1952 to 'organise its own state,' the SED

400 Soviet leaders and officials in this period also gave some thought to shifting the relationship of the USSR with its satellites from one of suzerainty to hegemony (Kramer, 1999). In accordance with the slight but significant thaw in Moscow's foreign policy from 1953, the concept of socialist transformation began yet again to be redefined. The old popular frontist idea that socialism could come about peacefully, through parliamentary change, or by the willing transfer of the means of production from private owners to the state, gradually began to be rehabilitated until they once again became the prevailing view. See Day, 1995.

401 Loth, 1998, p. 150.

402 Kramer, 1999, p. 25. 'The clear implication,' of the newly available Soviet documents, according to Mark Kramer, 'was that the fate of socialism in the GDR must be subordinated to the larger goal of German unity.' For a critique of Kramer's interpretation on this point, see Gerhard Wettig's 'Intra-Kremlin Power Struggle and the German Problem,' published on the internet.

had transparently failed. Having attempted for years to enforce a Taylorised labour regime, it had now received an almighty set-back.

The 1953 events were the first and most intense of a succession of crises – that included the ‘Berlin crisis’ of 1958–61, the economic and political crisis of 1970–2, and the revolution of 1989 – the processes and outcomes of which defined the coordinates of East German history. During each crisis, but especially the two that involved large-scale collective action, established institutions were rocked, old assumptions broken and common-sense stereotypes overturned. The outcome of each of these axial events, the particular settlement of each crisis, would then reconfigure political and socio-economic arrangements for the ensuing period.⁴⁰⁴

In the immediate aftermath of the uprising, an atmosphere of uncertainty reigned in the corridors of power. Would Moscow support Ulbricht or swing behind one of his rivals? Would the New Course be continued, reconfigured or withdrawn? In the medium term the settlement of crisis involved the re-orientation of Soviet policy towards East Germany, and of the SED’s relationship with the populace, along three main tracks. The first of these involved confirmation by Moscow of the basic parameters of the East German state. Although Soviet officials continued to talk of redrawing the security architecture of Europe – proposing in 1954, for example, that the USSR join NATO, and a renewed campaign a year later for reunification and all-German elections – there is little evidence that these were anything other than propaganda gestures. With the upheavals in Poland and Hungary in 1956, Moscow’s commitment to the East German state strengthened still further. ‘Any notion of trading it for neutralization of a united Germany,’ as Charles Maier has written, ‘became far too adventurous for even the reformist Khrushchev’.⁴⁰⁵ The new situation was to be symbolised in 1955 with the full diplomatic recognition by Moscow of the FRG, and three years later with the termination of the GDR’s ‘occupation costs’. Secondly, the SED learnt lessons in industrial relations. As Kopstein observes, the rising ‘effectively crippled the regime on the shop floor,’ forcing it to proceed with much greater caution thereafter.⁴⁰⁶ An implicit social contract formed, with industrial relations stabilising but on the back of comparatively high wages. Norms quickly returned to the *status quo ante*, and in the following two years average wages rose by 68 per cent rather than the planned 31 per cent.⁴⁰⁷ Although the campaign to increase the prevalence of the *Leistungslohn* continued, such that by 1958 fully 76 per cent of workers in state industry received piece wages, little could be done to prevent serious wage drift, with the average figure for norm fulfilment rising from 125 per cent in 1954 to 164 per cent in 1961.⁴⁰⁸ Thirdly, the post-uprising settlement was marked by a thorough revamping of the instruments of repression, including a major strengthening of the Stasi. With this in mind, prominent East German historians have submitted that the most notable result of the crisis of

403 Fricke, 1999, p. 86. The New Course, Richard Day suggests (1995, p. 87), was modelled on Roosevelt’s New Deal: it aimed to shore up the existing order by concessions to popular needs. In Russian the same term refers to both.

404 On the algebra of political crisis, see especially Barker, 1996, and Debray, 1973; also Habermas, 1973, and Hay 1995.

405 Maier, 1997, p. 23.

406 Kopstein, 1997, p. 37.

407 Gensicke, 1991, p. 292.

408 Roesler, 1994, p. 163.

1952–4 was the “‘internal state foundation” of the GDR’.⁴⁰⁹ Thanks to the galvanising effect in Moscow of the revolt of workers in Berlin, Stalin’s instruction to ‘organise your own state’ could now be followed without hesitation. By crushing the 1953 uprising Moscow demonstrated a ‘fraternal solidarity’ with its German creature that was set to grow in strength; the interests of the hegemon and ally were now cemented and would remain so for decades to come.

Within the triangle formed by these three aspects of the post-1953 settlement, however, an unresolved contradiction could be observed. While the first and third aspects involved an affirmation of the GDR’s political existence and commitment to its future stability, the second involved a limitation of the SED’s goal of raising productivity, a constraint that was exacerbated by the ability of East Germans to emigrate to – and gain citizenship in – the FRG. East Germans in the 1950s were able to change jobs relatively freely.⁴¹⁰ With rapid industrial growth, labour shortages, as Kopstein has put it, ‘gave the working class a power of sorts,’ and presented managers and planners with major headaches.⁴¹¹ The tight domestic labour market, moreover, was exacerbated by continuing high levels of emigration rates such that labour policy could not but be set with one eye on West German conditions. For example, the shortening of the working week for a third of the workforce to forty-five hours in 1957 appears, in part at least, to have been a response to the same concession in the West German metalworking industry.⁴¹² If a key sphere of competition between capitals occurs in recruiting labour, the GDR Ltd was clearly losing out. Yet with productivity slippage relative to the FRG continuing, the low pay and long hours of their employees were a competitive advantage that East German business leaders and planners did not wish to sacrifice.⁴¹³ The basic problem was put by Ulbricht, with characteristic bluntness, in a series of begging letters to Khrushchev in 1960. West Germany, he lamented,

has turned out to be economically powerful. In the final analysis, we cannot choose against whom we would like to compete. We are simply forced to square off against West Germany. [...] If I cannot pay a worker in Berlin a higher salary he will go to West Berlin. [...] We must improve the situation of the doctors and the intelligentsia and some workers, since the situation in West Germany is improving faster. In 1961 they already will have implemented a forty-hour working week; they will raise salaries, and we can’t even think about this.⁴¹⁴

Ulbricht was writing in the context of a major crisis, one which dominated East German political and economic life for three long years from the autumn of 1958. The direction in which it was resolved, however, was critically informed by the outcome of yet another year of crisis, one that affected the entire Soviet-bloc, and although centring on events in Hungary and Poland impacted upon the GDR too. In 1956 the Communist world was hurled into a maelstrom of debate and confusion following the publication of Khrushchev’s ‘secret speech’. After years of high Stalinism, reform communists now felt their views to have

409 Kowalczyk *et al.*, 1995.

410 This is not the place to enter the debate over the question of free wage labour in the STEs. For present purposes it suffices to point to the considerable degree of labour mobility in East Germany. Although firing workers was usually, in practice, difficult, labour contracts were very similar to those in Western market economies, and the pattern of wages and bonuses was determined to a great extent by competition amongst enterprises for labour power (Zander 1974; Huinink and Mayer, 1993).

411 Kopstein, 1997, pp. 156–7.

412 Hübner, 1995, p. 90.

413 According to Merkel and Wahl (1991, p. 59), per capita productivity fell from 50 per cent of the West German figure to 39 per cent in 1960.

414 Kopstein, 1997, p. 43.

been legitimised from the highest authority. In the GDR, coming so soon after the 1953 settlement, in which the SED leadership had consolidated behind Ulbricht's hawkish leadership, this came as a particularly unwelcome surprise. SED leaders, as Eric Honecker recalled, were 'shocked'.⁴¹⁵ Demands for reform once again blew through the Party, from bottom to top. One group of politburo members proposed that the pace of 'socialist construction,' be slowed and the power of the SED restricted, that repression be relaxed somewhat and relations with the FRG improved. Despite some nods towards de-Stalinisation (with lip-service paid to the demands for 'free discussion' in the SED and the rejection of Ulbricht's personality cult, as well as an acceptance of the concept of a 'variety of roads to socialism') the Ulbricht leadership in practice cleaved to orthodoxy.⁴¹⁶ A growing split in government encouraged ever-louder criticism by intellectuals. Emboldened by de-Stalinisation and by growing divisions in the SED leadership, and frustrated by the lack of real change, groups of intellectuals advocating more radical reform mushroomed. By the autumn, 'problem discussions' were sizzling in workplaces across the land, spurring a small strike wave.⁴¹⁷

That the situation did not escalate beyond this point is due in no small part to the chance fact that in Hungary similar developments had already gone further and faster, and had met with brutal repression. The conservative conclusions drawn from the authoritarian resolution of the Hungarian events served to weld the East German regime (and Party) behind Ulbricht, giving it sufficient cohesion and strength to marginalise opposition through a combination of concessions and repression.⁴¹⁸ Early in 1957 orthodox conservative policies were restored on all fronts, the expulsion of the reform faction from the leadership followed and, crucially for the course of events in subsequent years, supporters of a soft-line agricultural policy were ousted from their posts.⁴¹⁹

The crisis of 1958–61 unfolded in two dimensions. One, at the level of geopolitics, involved a Soviet diplomatic offensive aimed at pressing the Western allies to recognise the GDR. Success would likely have led to a reduction of migration flows, but the uncertainty generated by the offensive brought about the opposite effect: emigration soared from 144,000 in 1959 to 207,000 in the first half of 1961. This geopolitical crisis intersected with a complex economic crisis that involved a business cycle downturn as aggravated by four additional and mutually reinforcing factors.⁴²⁰ At the root of the downturn lay an overambitious investment programme that bred severe shortages, especially of consumer goods, and forced the abandonment of the Plan in 1959.⁴²¹ The growth rate of national income, depending upon which estimates are taken, fell from double digit figures in the late 1950s to just a few per cent in 1962, while that for investment plummeted – from 25 per cent in 1956 to 15 per cent in 1959 and a mere 1.4 per cent in 1961.⁴²² Of the additional factors that worsened an already grave situation, the first resulted from the resumption, by an SED leadership that was buoyed by Moscow's now cast iron commitment to their state, of the earlier

415 Andert and Herzberg, 1991, p. 248.

416 Spanger, 1982, p. 74.

417 Wolle, 1991. The claim – e.g. in Joppke, 1995, and Fuller, 1999 – that East German workers remained passive is somewhat misleading.

418 Stern, 1963, p. 203. Some of the reforms – e.g. the introduction of 'works committees' – represented diluted versions of the recommendations of dissident intellectuals whose views were simultaneously being suppressed (Ludz, 1970).

419 Ross, 2000, p. 111.

420 For a sketch of the mechanism of the business cycle in STEs, see chapter three.

421 The closure of the aircraft industry, discussed below, was of course a major unforeseen element in this.

422 Leptin and Melzer, 1978, p. 7; Steiner, 1999, p. 40.

project of 'constructing socialism' in the countryside. Whereas in 1958 as much as two-thirds of agriculture was still in private hands, a renewed round of semi-forced collectivisation was begun in the following year which saw the virtual elimination of private farming. Predictably enough, given the experience of seven years before, thousands of farmers emigrated, agricultural production declined and food shortages worsened. Emigrating farmers joined the far larger flow of skilled workers which – the second additional factor – exacerbated skills shortages, producing widespread disruption in production and planning processes alike. Thirdly, in 1960, Konrad Adenauer announced the cessation of inter-German trade, forcing panic import substitution in the GDR's engineering and chemical industries.⁴²³

The fourth factor was the closure of the aircraft industry. I am uncertain as to the precise degree to which this contributed to the economic crisis of 1959–62. Nonetheless, it is in itself such an illuminating example of industrial restructuring that a brief résumé is warranted.⁴²⁴ Having been one of the most advanced in the world, and led by firms such as Junkers, Messerschmidt, BMW and Daimler-Benz, virtually the entire industry was removed to the USSR in the postwar years. Being a crucial sector of the arms industry, the dismantling and transport was not restricted to components and plant. Most of the territory's aeronautical engineers, scientists, and technicians were relocated to the USSR, too, where they worked until the early 1950s. It was only following this complete rupture that a domestic aviation industry, producing middle-range jets and commercial aircraft, was then set up anew, in Saxony. An ambitious – some would say gigantomaniac – undertaking, it came to employ 25,000 workers by the end of the 1950s, making it the GDR's most expensive industrial project of the decade.

And then, suddenly, in early 1961, it was shut down. *Billions* of Marks were squandered. How on earth could this have been allowed to happen?

The proximate reason that was announced at the time, the disastrous first flight of a prototype, may have been part of the answer. But the effective cause lay deeper. Quite simply, the investment had been based upon projected sales to the USSR. There, however, aviation plants were, from 1957 onwards, being converted from military to civilian aircraft production in the wake of the recent ICBM programme, which had diminished the country's reliance upon long-range bombers. These Russian enterprises, as Stokes describes, now 'moved into precisely the same markets in which the GDR had hoped to compete.' In 1959 '[d]iminishing Soviet interest in the products of the GDR aviation industry became overwhelmingly apparent'. The market calculations and business nationalism of the Soviet aircraft industry were then backed up by direct imperial pressure. Eventually a high-ranking Soviet official bluntly informed the GDR's foreign trade minister that 'it is the opinion of the Presidium [of the Supreme Soviet] that the airplane industry in the GDR must be converted.'⁴²⁵ The East German industry was unceremoniously shut down.

423 Richert, p. 1964, p. 274.

424 This example is drawn from Prokop, 1993, pp. 140–1, and Stokes, 2000, pp. 136–7. See also Sutton, 1973.

425 Stokes, 2000, p. 137.

This component of the 1959–62 crisis is a graphic illustration of the problems that can face small countries in the attempt to construct large-scale industries if these are geared to a limited range of markets. But it is not simply a tale that speaks of the contrast between STEs and western market economies. A similar fate, let us not forget, was to befall Britain's civilian aircraft industry during a slightly later phase of the Cold War, when it was shut down as a result of competition from US rivals whose market muscle was a direct product of privileged feeding slots at the Pentagon's bottomless trough.⁴²⁶

The Berlin Wall

There are certain obvious respects, notably the severity of the economic crisis and exodus, in which the conditions in 1959–61 resembled those of 1952–3. Close to two hundred strikes occurred in 1960 – not a huge figure but it may well have added to these fears.⁴²⁷ The situation is 'visibly deteriorating,' Ulbricht admitted to the Soviet ambassador in the summer of that year. If nothing is done about 'the open border,' he warned, 'an explosion is bound to come.'⁴²⁸ But history did not repeat itself. In spite of the many similarities between the two conjunctures the differences were critical. For one thing, the uprising of 1953 had been brutally crushed, and some hesitation could be expected before East Germans would attempt a reprise, particularly given the visible build up of the security forces (including 'enterprise militias') that had occurred in the intervening period. For another, the sharp divisions within both the SED leadership and the CPSU, and between the two leaderships, had yielded to a fundamental unity in early 1953. Khrushchev, more than Stalin or Beria, had sanctioned a reform discussion, and yet in foreign policy his emphasis was to a greater extent than theirs upon the stabilisation of existing borders – 'peace through coexistence,' was the CPSU phrase of the times. The finality of the CPSU's acceptance of German division was given concrete form, in August 1961, in the shape of the Berlin Wall.

Of the settlements that followed the periodic crises of East German history, that of 1961 was the most starkly defined. An awesome display of power, the Wall elevated the confidence and cohesion of the *nomenklatura*. Although a gargantuan symbol of the GDR's unpopularity, in the short term it reinforced its stability and 'legitimacy,' in terms of the perceptions both of other regimes and of the East German public. 'Only with the permanent closure of the Berlin border,' as Bradley Scharf has observed, 'did the mass of the people begin to accept the durability of the new government.'⁴²⁹ The Wall, as an opinion survey taken shortly after its erection found, highlighted 'the real relations of power and the superiority of the socialist camp,' thereby opening citizens' eyes to the fact that 'no changes will be made to the social relations of the GDR.'⁴³⁰

426 Krugman, 1994, pp. 238–9.

427 Hürtgen, 2001, pp. 186–7. See also Steiner, 1999, pp. 279–81; Hübner, 1995, p. 193. This mini-wave of industrial action prompted the abolition of even the nominal right to strike; Weber, 1980, p. 101.

428 Zwahr, 1994, pp. 438–9.

429 Scharf, 1984, p. 124.

430 Prokop, 1993, p. 179.

In its economic consequences, the Wall's chief effect was to dam the outflow of skilled labour. The drying up of the exodus did not curtail workers' shop floor bargaining power, based as this was upon a tight labour market, but it did diminish it, and gave the signal for a wage-cutting offensive that lasted well into the decade and enabled the consumption quota to be cut significantly.⁴³¹ The building of the Wall also reinforced two important economic changes that had been underway for years. Firstly, over the course of the 1950s East German trade growth had averaged over 17 per cent per annum.⁴³² Its trade with other STEs had grown explosively, taking its share of intra-CMEA trade from 13 per cent in 1950 to 19 per cent a decade later. The Second Berlin Crisis acted to give political reinforcement to this economic development. Secondly, 1958–61 marked 'a crucial breaking point' in the development of East German technology, as Raymond Stokes has described, centring on a break with the legacy and influence of western know-how, machinery and technological systems in favour of a 'fundamental reorientation' to the USSR.⁴³³ This shift was a product in part of the desire to avoid dependence upon the West, which was already beginning to develop in high tech sectors.⁴³⁴ But if this was the sole explanation, one would expect the change to have been carried out with reluctance. In fact, as Stokes has shown, the embrace of closer connections to the USSR and other STEs was in many cases 'active and excited,' an attitude that

can only be explained by the perception of Soviet technological accomplishment, symbolized most spectacularly by the launch of the first Sputnik, but also evident in Soviet achievements in petrochemicals, semiconductor development, and Group Technology.⁴³⁵

In spite of the long shadows cast by the Second Berlin Crisis, the Wall and the western embargo, not to mention the crash of the aviation industry, the 1960s were greeted by the East German industrialists and politicians with optimism. Their guarantor and chief export market, the USSR, had been growing rapidly, outstripping US growth rates and leading Khrushchev, famously, to predict that 'we will bury you!' Reparations and occupation costs had been reduced to a trickle, and with post-war reconstruction complete, attention could turn to innovation and the establishment of new industries. Politically, the GDR had been stabilised, thanks to the settlement of 1953 and above all the building of the Wall. Renewed confidence amongst planners and managers together with the availability of greater surpluses for investment helped to boost industrial innovation – in this respect, as measured by the number of patents and newly implemented product processes, the 1960s was the GDR's peak decade.⁴³⁶ It was also a set of conditions that encouraged experimentation in economic regulation, as will be outlined in the next chapter.

431 Hübner, 1995, pp. 78–81. On the new forms taken by grassroots resistance in the post-Wall period, see Ross, 2000; Kopstein, 1997.

432 Küchler, 1999, p. 114.

433 Stokes, 2000, p. 201.

434 Roesler, 1995, p. 218–9.

435 Stokes, 2000, p. 201. 'Group Technology' was a pioneering form of economic organisation which prefigured contemporary 'flexible' production methods that emphasise scope economies. Though hailed as distinctively 'socialist,' it was imitated by companies in the USA, UK, FRG and elsewhere.

436 Bauerkämper et al, 1994, p. 117.

5. The Promise and Threat of Reform

'The great monopoly groups of Western Europe,' Walter Ulbricht declared in 1964, 'have spread across national barriers due to pressure from American competitors, in their search for technical progress.'⁴³⁷ The early signs of the post-war globalisation of the Western world economy were already visible. The concentration of capital, having seemingly reached an apex in the state capitalist national monopolies of the mid-twentieth century, now began a further advance along trans-national routes. The USA used its leverage as the world's banker to open up the world's commodity and capital markets to the power of large corporations. The multi-national company (MNC) began to emerge as the leading form of enterprise, setting new standards in cost, efficiency and market power and gaining crucial advantages over nation-bound rivals. By maximising the geographical market, companies trading abroad found themselves able to harvest economies of scale thanks to larger production runs, and greater specialisation and standardisation, advantages that were particularly critical in high-tech sectors with high development costs (the ability and incentive to innovate is connected to market size).⁴³⁸ Operating across borders afforded MNCs the ability to draw upon even greater resources than national monopolies and to concentrate specific activities in the value chain in sites with the strongest perceived country-specific advantages; for instance, complex design and pilot production processes could be established in areas of highly skilled labour, with volume production and assembly plants located in areas with weak consumer protection, union organisation, labour regulation or low pay. Transnational organisation could reduce vulnerability to economic cycles, facilitate the swift entrance into new markets and the ducking of tariff barriers. It enabled the location of production closer to markets and afforded greater scope in the areas of horizontal and vertical integration, enabling increased control over output, price and markets. Transnational operations also facilitate technology transfer and a faster exchange of innovations. And, of course, MNCs benefited from the competitive nature of the world political order. Relationships with multiple states enabled tax losses to be minimised through transfer pricing and inducements (such as tax concessions) to be bargained from governments. These mechanisms served to boost profitability, contributing to virtuous circles whereby extra profits were fed back into R+D, advertising and brand development, and aggressive pricing.

Many of these developments were only embryonic in the early 1960s, but, as the above excerpt from an Ulbricht speech indicates, it was already apparent that globalisation threatened to put the STEs at a serious disadvantage. They were relatively 'trade averse,' with international trade mediated through export and import licenses and administered by cumbersome foreign trade organisations. Their limited position on world markets was expressed in non-convertible currencies, impeding multilateral trade – if surpluses could not be used multilaterally, each had little incentive to build up surpluses with others.⁴³⁹ Trade aversion was compounded by the fact that the West, particularly after the passing by Congress of the 'Battle Act' in 1951, treated the STEs as 'least favoured nations'. A key tool in this was the CoCom list,

⁴³⁷ Marsh, 1973, p. 54.

⁴³⁸ Freeman, 1982, p. 140.

⁴³⁹ F. Holzman, in Lavigne, 1991, p. 9; Levick, 1990.

viewed by SED leaders, accurately enough, as a 'productivity-embargo and thus a factor in the worldwide competitive struggle.'⁴⁴⁰

Comparative autarky hindered technology transfer and emulation. Scientific and technological advance occurs internationally – in Berliner's phrase, it flows across borders through 'publications, products and persons'.⁴⁴¹ The STEs received many foreign publications, only some foreign products, and very few foreign persons. Their borders remained relatively impermeable.⁴⁴² The lack of immigration, and especially of student and business exchanges, hindered technological and technical progress. Structurally averse to internationalisation, the STEs suffered in two further respects. With shielded domestic markets, officials and enterprise managers faced a comparatively low direct pressure to introduce technical and sectoral change.⁴⁴³ Connected to this, the aim of building a broad-based and diversified economy, typically justified in terms of national security, entailed a low degree of specialisation. For example, the metalworking industry of tiny East Germany produced fully 65 per cent of the world product assortment, against 50 per cent for the USA and 17 per cent for the FRG.⁴⁴⁴ That domestic firms were largely oriented to the national market meant, simply, that the level of resources required to match the most advanced enterprises in the world system could not be mobilised.⁴⁴⁵

Globalisation, Soviet-style

If the STEs had been ideologically wedded to autarky, as is often supposed, globalisation would have simply posed a challenge to be resisted. In fact, it invited imitation. In spite of the fetters to trade and cooperation mentioned above, Soviet-bloc trade growth followed world trends throughout the post-war boom. The GDR's foreign trade, for example, grew almost three times as fast as national income during its first two decades.⁴⁴⁶ Nor was this perceived as an undesirable by-product of economic growth. In the 1960s the lineaments of a 'catch-up' strategy emerged that was based upon the import of Soviet raw materials (especially oil) at below world market prices, to be worked up using comparatively cheap and skilled labour combined with the application of technologies developed domestically, in cooperation with other STEs, and imported from market economies, in order to produce goods for domestic consumption *and* for profitable export to CMEA and Western markets.⁴⁴⁷ Part of this strategy involved the expansion of bilateral

440 Mittag, 1991. Jan Winiecki has even argued (1988, p. 145) that 'if STEs "undertraded" with the West in earlier years, it was probably [primarily] the result of extensive COCOM embargoes on precisely those products that industrialising STEs were most interested in buying'.

441 Berliner, 1988, p. 213.

442 Pittman (1992, p. 88) notes that the Poland-GDR border was the first to be opened to visa-free travel, as late as 1972.

443 As we have seen, this enabled certain intermediate input-producing industries such as iron and steel, chemicals, cement, and paper to outlast their shelf life. Winiecki, 1988, p. 74.

444 Kusch *et al.*, 1991, p. 46.

445 Harman, 1990, p. 45.

446 Küchler, 1999, p. 113.

447 The GDR 'has little in the way of raw materials,' as Ulbricht put it, 'so only in cooperation with the Soviet Union and the other socialist states could the problem of the scientific-technical revolution be successfully mastered.' In Sarotte, 2001, p. 84.

trade. But a second string centred on the attempt, as Ulbricht put it in the speech mentioned above, to drive forward 'the internationalisation of economic and scientific cooperation' within the CMEA.

Founded in 1949 as an echo of the ERP, the CMEA had lain dormant for its first decade, as post-war reconstruction of the STEs proceeded along autarkic lines. In the late 1950s it was awakened by Khrushchev, apparently motivated by a concern to counter centrifugal tendencies within Eastern Europe as well as to stimulate economic efficiency. Integration, it was argued, would enable greater specialisation in research and production, enabling high-quality and large-scale series production and generally enhancing the ability of the STEs to compete against and trade with the West. His plans found support amongst other STEs, notably East Germany. The latter was motivated in part by an interest in revitalising on a multilateral basis forms of bilateral cooperation with Soviet enterprises (including semiconductor producers) that had been initiated in the 1950s but then stalled. From the early 1960s, repeated attempts were made to foster 'socialist internationalisation,' with the CMEA acting as a framework in which a planned division of labour amongst the Comecon countries could be coordinated and research pooled.⁴⁴⁸

Some movement towards integration was charted. Two Comecon banks were established, in 1963 and 1970, to handle settlements in transferable roubles and to provide loans for intra-Comecon projects. Dozens of joint ventures between Comecon firms were established. A 'Soviet-world car,' the Lada, was manufactured, with components produced throughout Comecon. Perhaps the most notable achievement was the 'unified system of electronic computing,' that strove to deepen cooperation in the field of data processing. Begun in the late 1960s, over 20,000 scientists and engineers and around 300,000 employees in some seventy firms across seven countries were involved. Nothing equal to this happened elsewhere in the world until five or ten years later; Olaf Klenke flags it as the 'world's first multinational electronics project'.⁴⁴⁹ Although it did not enable an overtaking of world leaders, some of its products were successful copies of the best in the West, and its overall effect was to significantly reduce the technology gap in its field. In the 1970s and 1980s these flagship ventures were followed up by a number of further attempts to pursue technological cooperation – a sort of Comecon-wide import-substitution strategy in high-tech fields such as nuclear energy, biotechnology as well as microelectronics.

However, Comecon integration was from its inception beset by strife. Despite some progress in the 1960s most plans thereafter scarcely got off the drawing board. The standard explanation for the lack of success centres on the fact that, because enterprises were bound so tightly into state planning apparatuses, cooperation was invariably beset by national egotism. Even the development of a division of labour, as Marie Lavigne points out, could be seen as a threat to 'economic' as well as 'national' security: it 'is a risky undertaking as it may lead countries to forsake vital elements of their industrial base, leaving these to partners who may then not be able to meet their obligations.'⁴⁵⁰ While similar egotisms afflict international

448 SED reformers around Ulbricht went further, arguing for the 'all-round economisation' of bi- and multi-lateral cooperation, involving *direct* relations between enterprises in the Comecon countries, on a 'strict contractual basis' and using prices close to the world market. The latter found Ulbricht's support too. Kaiser, 1997, pp. 94, 304–5.

449 Klenke, 2001, p. 72.

450 Lavigne, 1991, p. 95.

cooperation in Western Europe, to take the example with which CMEA planners compared their organisation, in the EU far more power is devolved either to the firm or upwards to the supranational level, both of which are at one remove from the nation state.

Conflict between Comecon members over the distribution of costs and benefits was endemic. In joint projects the tendency was for each side to attempt to impose the major risks upon the partner, and for each to seek to maximise inward technology transfer and minimise the reverse flow. Thus the GDR tended to find itself delivering high tech goods to the USSR but was largely excluded from forms of cooperation in which technology transfer flowed the other way.⁴⁵¹ For their part, GDR policymakers behaved in similar fashion. For example, plans for the importation of computer chips from Czechoslovakia were resisted. Although the ostensible reason was Czechoslovakia's technological backwardness, one suspects that an additional motive may have been the Germans' jealous (or 'entrepreneurial') attempt to build and maintain a monopoly position within Comecon.⁴⁵²

For many writers, a good example being Harriet Friedmann, CMEA integration should therefore be conceived as having 'foundered upon the contradictory requirements of bloc unity and national autarky.'⁴⁵³ For Friedmann, CMEA integration and national autarky represented two competing growth strategies. The former succumbed to 'national opposition' – notably that of Romania in the early 1960s – 'which found its material basis in the [...] Stalinist program of industry and autarky.' Although this explanation is not false, it fails to capture some nuances. The claim that Romania's opposition to integration was driven by a 'pull to autarky' does not reveal the full story. This was the accusation levelled against it by officials of the four STEs that were most committed to integration: Poland, Hungary, Czechoslovakia and the GDR. But in fact Romania was pulling *away* from autarky in the 1960s and 1970s at least as fast as its accusers. The critical difference was that its tendency, to a substantially greater extent than theirs, was towards closer trade relations with the West.⁴⁵⁴ Although in the early 1950s one of the most CMEA-oriented of the STEs, Romania rapidly became the pioneer of integration with the world market. In 1972 it joined the IMF, and by 1980 its trade with other STEs as a proportion of its total volume was considerably lower than that of any other CMEA member.⁴⁵⁵

Romania's behaviour was later to be replicated by its critics. All the STEs began to prioritise dealings with the 'non-socialist abroad' over those with Comecon partners. Increasingly the aim was to gain advantageous positions within Comecon's geo-economic enclave in order to boost exports to the world market. But trade and other links with Western economies tended to encourage the flouting of Comecon agreements and amplified intra-Comecon rivalries. The dollar began to compete with the 'hand of friendship,' with Soviet-bloc firms seeking to *import* as much as possible from within Comecon, and

451 This was in part a result of the secrecy and egotism of the USSR's military-industrial complex, which placed major constraints upon cooperation in R&D even with its loyal German ally.

452 Barkleit, 2000, pp. 47–8.

453 Friedmann, 1998, p. 216.

454 Herbst, 1995, p. 371.

455 Lavigne, 1991, p. 17.

maximising exports to 'hard' markets – making administered Comecon integration increasingly problematic.⁴⁵⁶

The contradiction that most hindered Comecon integration was not that between autarky and integration, but between integration with the East and with the world market. Romania was not simply driven by a 'pull to autarky'; if anything its actions gave a foretaste of the 'pull to the West' that was later to dominate the STEs' external relations. Underlying its reluctance to join hands with its allies was an additional factor: its relative backwardness. Comecon integration, Romanian officials argued, was championed by its industrialised members for their own purposes. They had everything to gain by obstructing the development of high-tech industries in the more backward STEs and encouraging them instead to specialise in supplying them with raw materials and intermediate goods.⁴⁵⁷ Ulbricht's championing of *internationalisation* expressed 'national egotism.' For, thanks to its 'advanced technological capacity within the eastern bloc,' as Stokes has put it, 'the country stood to gain from agreements to specialize, since it was likely to benefit from export of high-value-added machinery and equipment to its socialist neighbors.'⁴⁵⁸ Given the stark economic divide between Comecon's advanced and backward nations, and, moreover, the widespread concern that an extended division of labour could exacerbate the Eastern European STEs' dependence on the USSR, a relatively equitable integration of Comecon along the lines of the EU was never realistic.⁴⁵⁹ This nuance is lost if one views the matter simply in terms of an opposition between national and supranational strategies. A closer look reveals that the interests of national capital accumulation were inscribed within, and necessitated, projects of internationalisation.

A high-tech nation

The 1960s was a decade that witnessed the reform of the CMEA division of labour but also 'modernisation' at home. The Ulbricht leadership sought to wean the GDR from economic dependence on the USSR and to transform it into a 'high-tech' nation capable of overtaking the FRG.⁴⁶⁰ This was an age of technocracy, in which technological progress was not to be prevented by geopolitical rivalries. 'We must clearly be guided by world levels,' as the chief of the State Planning Commission, Erich Apel, emphasised in 1964. 'If the world level in one field or another exists in the Soviet Union then this becomes our standard; if it is found in West Germany or Japan then this is where we look.'⁴⁶¹

456 Raymond Stokes (2000, p. 87) for example, recounts a squabble over oil deliveries between the USSR and East Germany already in 1964, during which a Soviet official told an East German minister that his government should 'have some understanding of the fact that crude oil had to be sold by the Soviet Union to capitalist countries, even if there were deficits in the GDR.' That West Germany was already refining 45 million tons of Soviet oil and was predicted to raise that to 70 million by 1970 was, in his words, due to the fact 'that they could simply afford it.'

457 Herbst, 1995, p. 370; Fejtő, 1971, pp. 159, 333–4.

458 Stokes, 2000, p. 134.

459 Bunce, 1985, p. 15.

460 Kaiser, 1999, p. 337.

461 Marsh, 1973, p. 50.

Science and technology found themselves re-defined as *the* dynamic sources of social change.⁴⁶² Investment in research and development, and in new industries such as electronics and nuclear power, soared. The modernising obsession was not limited to science and industry; policymakers, as Monika Kaiser has described, also 'attempted – with an intensity unmatched before or since – to employ new scientific methods (such as cybernetics, heuristics, principles of scientific management, and computer technology)' to the rationalisation of political and economic administration.⁴⁶³

Four rafts of productivity-oriented reforms were introduced. The first was of the education system. Enacted under the banner of 'education competition' versus West Germany, the reform centred on a massive expansion of the tertiary sector, particularly in the spheres of science and technology, designed to compensate for the pre-1961 haemorrhage of highly skilled labour and to meet the requirements of increasingly sophisticated production processes.⁴⁶⁴ The university sector was systematically geared to the requirements of accumulation, with over 80 per cent of research being directly commissioned by industry.⁴⁶⁵ Meanwhile, secondary education was restructured and systematically 'oriented to the personnel requirements of the economy'.⁴⁶⁶

The second arena of reform was industrial relations. As outlined in chapter four, the cutting edge of managerial offensives had previously involved the introduction and generalisation of 'scientifically assessed' piece wages. The limitations of this form of labour control were now becoming apparent. By encouraging haste, piece work delivers low quality output and high levels of wear and tear of increasingly valuable machinery. Nor was it an effective means of suppressing wages. The myth of 'objective' rates was rarely, if ever, believed. Workers learnt that they could influence piece rates, either through outsmarting the 'scientific assessors' or by pressing management to make concessions. In conditions of full employment the generalisation of piece work did very little to weaken workers' bargaining position or to stem 'wage drift'.⁴⁶⁷

From 1958 piece work declined until, in 1967, it covered only a quarter of workers in state-owned industry. The replacement system of 'performance-related pay' was designed to shift control over pay and performance towards management. At the heart of the new system was the bonus. They were granted according to criteria of 'hard work' and 'quality of output,' but also rewarded obedience, as measured by punctuality, discipline and even political conformity. Performance-related pay provided managers with larger carrots and sticks with which to combat workers' attempts to reduce work-time through late arrival and early departure, interrupting work, faking work-time, and so on. Although failing to eradicate the still-widespread egalitarian shop-floor ethic or wage drift, the reforms did boast a qualified success.⁴⁶⁸ Real

462 Their elevated status was ceremoniously dignified, in typical stalinist fashion, by a theoretical redefinition whereby science was deemed to be part of society's 'base' and not 'superstructure.'

463 Kaiser, 1999, p. 337.

464 Erbe, 1982, p. 177; Laitko, 1997, p. 48.

465 Sontheimer and Bleek, 1975, p. 137.

466 Laitko, 1997, p. 47.

467 Similar effects were observed in Britain and elsewhere at times of labour shortage during the same period. Cliff, 1970.

468 Cf. Rudolf Bahro, in Bust-Bartels, 1980, p. 131. Also, Kopstein, 1997, p. 158.

wage growth as a percentage of productivity increase fell to an annual average of 71 per cent in the first half of the 1960s and then fell further, to 65.5 per cent, in the second.⁴⁶⁹

The third raft of reform, beginning in 1967, was to the structure of business. Reflecting a fascination with contemporary world trends in business organisation, a systematic attempt was made to integrate enterprises – in some cases vertically, in others, horizontally – into so-called *Kombinate*, mirrors of the Western multi-divisional corporation. The overt aims were to concentrate research, reap economies of scale in production, and streamline the system of informal bargaining and deal making between units, although the encouragement of competitive empire-building as a proxy for market forces may have been a motivating factor too.

The centrepiece of the reforms, however, was a series of alterations to the structure of planning and competition, known as the New Economic System (NES). Their thoughts sharpened by the crisis of 1958–62, and acutely aware both of world-economic changes and the continuation of the West German *Wirtschaftswunder*, SED leaders and officials showed a surprising willingness to question the long-term viability of the GDR's war-economic structures.⁴⁷⁰ Drawing upon Soviet reform ideas as well as contemporary Western management literature plans were drawn up to develop an analogue to inter-firm market competition and to gear production towards demand by encouraging a profit-loss orientation in, and granting greater autonomy to, individual enterprises.⁴⁷¹ Over the course of the 1960s some of these plans were realised. Albeit within limits that were still set by central planners, enterprises were permitted greater scope to allocate resources for investment, collect their own income, borrow money, disburse their own profits and, to a certain extent, determine wages. The yardsticks measuring plan fulfilment and the criteria determining bonuses for firms were altered, with priority given to indicators based on efficiency rather than total output. Planning became less detailed, less a structure of 'command' and more 'perspectival'. Prices were accorded an enhanced role in determining resource allocation, with the aim of putting downward pressure on production costs and forcing obsolete methods out of use. In particular, raw materials prices were raised sharply. The system of rewarding management was redesigned to encourage the introduction of new technology and labour discipline. In short, the hope was to spur productivity growth through the introduction of mechanisms that approximated more closely to those of a market system. Ulbricht spoke positively of the need for a 'symbiosis of plan and market' and even gave sympathetic consideration to the suggestion that a bankruptcy mechanism was necessary.⁴⁷²

469 Adam, 1979, pp. 18, 37.

470 Baylis, 1971.

471 Steiner, 1999, p. 143; Kopstein, 1997, 49. As so often, the once-scorned proposals of dissident or non-conformist intellectuals were quietly introduced, albeit in diluted form.

472 Grieder, 1998, p. 13; Przybylski, 1992, pp. 164–5.

Contradictions of reform

In its initial stages the NES seemed successful, as rapid growth resumed. It attracted interest from elsewhere in Eastern Europe (including a study visit from a young Russian bureaucrat named Gorbachev). However, the reforms ran up against a variety of problems. First, opposition emerged amongst officials, for the simple reason that 'regulating a reforming economy was so much more complicated and difficult than administering a purely Stalinist economy.'⁴⁷³ A second source of opposition came from workers and managers. One plank of NES, for example, that was due to begin in trial form in 1966 involved a shift to profitability as the determinant of investment decisions that would necessitate closures and lay-offs. Kopstein relates how, in one scheme in Zwickau, '[t]hose threatened with transfers to new work put up stiff resistance. Coal miners and their managers [...] brought the situation to the edge of revolt.'⁴⁷⁴ In the face of these prospects, he notes, plans to close down certain parts of the coal mine were quickly dropped.

Thirdly, the devolution of economic power raised the prospect of enterprises and ministries being able to form, and act according to, their own priorities. Such challenges to the state's control over the economy, not least by allowing, raised the spectre of centrifugal forces undermining the ability of the central authorities to steer the economy. It allowed enterprise managers to partially break from the state plan. For example, firms striving for higher profits could change product lines without proper reference to the central authorities.⁴⁷⁵ It encouraged firms to develop informal links with other enterprises and even directly with developed market economies (DMEs). This undermining of the Party-organised integration of economic units into a fused 'national interest' inspired resistance to reform, within the SED leadership and in Moscow too.

That the Kremlin's attitude was sceptical lay in part with the Ulbricht leadership's incipient attempt to play the GDR's connections to the FRG against the USSR. Although Moscow's imperial-economic strategy had on the whole moved from the predatory to the benign, its trading relationship with East Berlin remained fraught. In Kaiser's treatment of the subject, the emphasis is upon Moscow's wilful behaviour and pertinacity. For example, it reneged on the delivery of massive quantities of coal and oil, demanded that increased oil deliveries would only be forthcoming to those of its partners that invested heavily in its distribution systems, and cancelled, at the last minute, orders for chemical factories that the East Germans had already completed.⁴⁷⁶ The emphasis is rather different in André Steiner's treatise. 'As a rule,' he writes,

the GDR would demand more raw materials from and planned larger sales of manufactures to the USSR than the latter envisaged, only then to insist [...] that if a cooperative attitude from the Soviet side was not forthcoming then the planned developments would be in jeopardy.⁴⁷⁷

473 Kopstein, 1997, p. 52.

474 Kopstein, 1997, p. 62.

475 Steiner, 1999, p. 158.

476 Kaiser, 1997, pp. 86–96 and *passim*.

477 Steiner, 1999, p. 447.

What is not open to dispute, however, is that the East Germans, being comparatively dependent upon their Soviet partner, had the weaker hand. As the 1960s wore on, increasing notes of friction sounded in the relationship between the two allies. In the middle of the decade, perhaps sensing an incipient threat to the delicate relationship of bilateral planned trade, the Kremlin pressured the SED into accepting a massive trade deal at terms very favourable to the USSR. This reinforced GDR-USSR integration and strengthened the role of central planners in the shaping of overall trade.⁴⁷⁸

There was one trump that East Berlin could play, but it was the politically dangerous tactic of exploiting connections to the FRG. Ulbricht was no fool. He was worrying already in 1964 that West Germany's trade with Eastern Europe could play the role of a 'trojan horse,' leading these countries into dependence upon West German goods that the GDR could not supply.⁴⁷⁹ Later, he was to perceive Bonn's 'new *Ostpolitik*,' not altogether incorrectly, as an attempt to 'buy us'.⁴⁸⁰ Yet despite these fears he felt able, even obliged, to play the card himself – sometimes with astonishing bluntness. Thus, he warned the Soviet deputy prime minister in 1968, if GDR-USSR 'cooperation does not work, you will force us onto the capitalist market'.⁴⁸¹

In the three years that followed this threat, a growing fear that the NES reforms could get out of hand, coupled with escalating GDR-USSR friction and compounded by an economic surge and slump served to weld together a coalition of opponents of reform in East Berlin and Moscow. This period marked a turning point in more ways than one, and as such deserves closer inspection.

Boom, crash and the end of Ulbricht

Buoyed by rapid growth rates in the mid-1960s, and yet painfully aware that the central task of catching up with the FRG continued to elude them, SED leaders decreed, in 1968, a major upward revision of the original plan targets for 1966–70. Extra investment was focused upon 183 automation projects, as well as construction projects, new schools, and an enormous commitment to prospecting for domestic reserves of natural gas. The resources involved were immense. The number and extent of 'centrally confirmed structural projects' alone, as recounted later by the head of state, Willi Stoph, 'was raised from 2.2 billion Marks in 1967 to around 10 billion in 1970.' In some regions, he added, 'the required investment in 1970 was therefore greater than the entire stock of industrial capacity'.⁴⁸² The *extra* investment alone, about twenty billion Marks, equalled the *total* investment for 1965. The situation was exacerbated by an increased 'investment hunger' on the part of enterprises. Given the greater freedoms that these now enjoyed, borrowing from the state bank was easier and the ability of central planners to steer against it had been

478 Mastny, 1972, p. 15; Marsh, 1973, p. 60.

479 Bender, 1995, p. 110

480 Kaiser, 1997, p. 265.

481 Steiner, 1999, p. 448.

482 Naumann and Trümpler, 1990, p. 39.

lessened. In addition, over a billion Deutschmarks was committed to credits and aid to Third World countries in a bid to win their support for diplomatic recognition.⁴⁸³

The roots of this apparently reckless shift are commonly located in Ulbricht's overambitious personality.⁴⁸⁴ This is, at best, only partially convincing. For the overambitious pursuit of accumulation was common throughout the STEs – and indeed market economies – during the latter stages of business cycle upswings.⁴⁸⁵ Indeed, the psychology involved was not unlike that of investors in a bull market. As described by Gerhard Naumann and Eckhard Trümpler in their excellent study of the period, the politburo 'felt supported by the positive economic results since 1963 and especially in 1966–7. These strengthened their optimism and their faith that greater successes could be achieved.'⁴⁸⁶ And, just as bubbles in securities markets prompt Western economists to invent underlying causes of 'productivity miracles,' a new principle of the 'dynamic balancing' of planning was dreamt up by East German functionaries to justify the projected miracle and explain away disproportions.⁴⁸⁷

An equally significant input into the decision to 'go for broke,' moreover, can be found in the emerging belief on the part of Ulbricht and his advisors in the viability of 'import-led growth.' In its essentials, the strategy was a simple one. Ulbricht himself outlined it thus, to a Soviet official: 'We are going to go as far as possible into debt with the capitalists,' in order to purchase plant and equipment. A portion of the quality products that these produced (with the help of cheap labour and Soviet raw materials) will then, he added, 'have to be exported to those places from which we got the machines and the debts.'⁴⁸⁸ Needless to say, economic perspectives of this sort were not devoid of political consequences. There is a growing body of evidence that suggests that the GDR's turn to import-led growth and its concomitant borrowing requirements contributed towards a surprisingly open and exploratory approach by Ulbricht towards the FRG.⁴⁸⁹ This was precisely the period in which US-Soviet détente and Bonn's 'new *Ostpolitik*' were beginning to open new perspectives. Ulbricht hoped that moves towards a stabilisation of relations would help to enable economic and technical cooperation with the West, simultaneously reducing the risks and improving the prospects of import-led accumulation. It is even recalled by some that he viewed a confederation with the FRG favourably.⁴⁹⁰

If in 1968–9 the dynamics of the investment boom and an exploratory *Westpolitik* reinforced one another, precisely the same was to occur in reverse, in 1970–1. Whereas in the heady first period Ulbricht could raise hopes in overtaking the FRG, whose 'economic miracle' had begun to falter the second saw clouds of crisis gather on all fronts. Although Ulbricht had had a good many critics in the SED leadership before 1970, in that year his most powerful colleague, Erich Honecker began to scheme to remove him.

483 Steiner, 1999, pp. 511–2.

484 E.g. Kopstein, 1997, p. 65.

485 Ickes, 1986, p. 36; Bryson, 1976, p. 88.

486 Naumann and Trümpler, 1990, p. 11.

487 Steiner, 1999, pp. 144–54.

488 Sarotte, 2001, p. 79.

489 Steiner, 1999, p. 522; Sarotte, 2001; see also Kaiser, 1997, ch. 4.

490 Wolfgang Berger, in Sarotte, 2001, p. 78.

In addition to Ulbricht's personal unpopularity amongst a number of politburo members, there were two main cards in Honecker's hand. First, the attempt to strengthen bridges to the Western world, in particular West Germany, was viewed with scepticism in Moscow. Given West Germany's economic superiority the relationship, as Soviet and SED leaders were well aware, was heavily skewed. Ulbricht was seen as having overstepped the mark in asserting East Germany's independence. Brezhnev expressed this concern to Honecker in the following terms: 'We have not yet reached the time when the GDR can have a great influence on events in West Germany. West Germany is economically strong. It is trying to gain influence in the GDR, to swallow the GDR and so on.'⁴⁹¹ West German leaders, from Willy Brandt to Franz-Josef Strauss, he reminded Honecker, were to be mistrusted one and all.⁴⁹² They were all seeking *rapprochement* with the GDR in their class interests, but 'we' will not allow it. 'We, the Soviet Union, the socialist countries, will secure the results of the victory [of WWII]. We will not permit a development that weakens or endangers our position in the GDR, or an annexation of the GDR by West Germany.' Brezhnev believed that Honecker would make a more predictable and pliable leader and made no bones of his support for him. If Ulbricht 'tries to go over our heads, or if he makes rash moves against yourself or other comrades in the politburo,' he declared during the same conversation, he would find it 'impossible.' For 'our troops are stationed there. Erich, I'll tell you straight – and never forget this – the GDR cannot exist without us, without our power and might.'⁴⁹³

In earlier times categorical support from the leader of world Communism might well have provided sufficient grounds for Ulbricht's replacement. However, the Russians were in fact wary of appearing to dictate events. It is therefore unlikely that Brezhnev and Honecker would have acted had it not been for the concurrent swelling of voices critical of Ulbricht within the SED leadership. And this, the fact that the number and influence of such voices was swelling in 1970–1, was largely the product of a dramatic economic slump and working-class discontent.

Already by the end of 1969 no slack remained in the system; signs of overheating were becoming evident. The investment boom was sucking in imports from the West, the balance of payments on current account was lurching into deficit and borrowing was soaring.⁴⁹⁴ At the SED central committee meeting in June 1970 news was given of the symptoms of crisis.⁴⁹⁵ The rate of return on investments, delegates were told, was substantially lower than in other economies, a key reason being the recent investment spree that had led to an extremely high level of unfinished projects. Overinvestment, and the diversion of resources from existing ventures to new projects, had generated disproportions and inflationary pressures, that were manifested in acute shortages.

The gathering signs of crisis fuelled the doubts in Ulbricht's capacities of a layer of functionaries who had long been sceptical of Ulbricht's economic reforms. However, one should not conclude from this that

⁴⁹¹ Przybylski, 1991, p. 287.

⁴⁹² Kaiser, 1997, p. 379.

⁴⁹³ Sieber, 1994, p. 86.

⁴⁹⁴ From 1968 gross debt doubled in a mere three years. Schmidt, 1985, p. 267.

⁴⁹⁵ Naumann and Trümpler, 1990, p. 81.

his ouster was primarily a result of his support for reforms. The NES process had already stalled, for reasons given above, while the decision to accelerate growth had further undermined the reforms due to its dependence upon of centralist mechanisms, with central planners foisting new investment projects upon enterprises. That decision had been backed by Ulbricht and other reformers in the full knowledge that this was the case. Similarly, in conditions of economic overheating, Ulbricht and other reformers now gave their undiluted support to centralist methods of dampening demand and 'rebalancing' the economy – essentially by ordering the mothballing of the majority of the new investments. So although *previous* opposition to the NES was undoubtedly a factor in the calculations of some of Ulbricht's enemies, it would be misleading to reduce their motivations to this.

Rather, the crucial additional factor is to be found in other aspects of the Ulbricht leadership's initial response to the crisis and its repercussions. It was hoped, as we have indicated, that freezing investments and increasing borrowing would help to restore economic 'balance.' In addition, however, Ulbricht and his 'economics tsar' Günter Mittag insisted that workers and the public pay for the consequences of crisis through increased working hours and reduced consumption. To a degree, sacrifices were already being made: managers were responding to nigh-impossible targets by putting workers on 'special shifts' at weekends, while grave shortages of consumer goods were already effectively devaluing wages. From the summer of 1970 austerity measures were accelerated, with the SED leadership reducing subsidies on basic goods, decreeing cutbacks in the health service and scrapping planned improvements in work conditions and social and cultural provisions. Needless to say, there were limits to this strategy, namely the sufferance of the working class.

1970–2 witnessed a chorus of discontent unprecedented since 1961, possibly since 1956. Although from a very low base, the number of industrial conflicts had been rising –indeed, it trebled in the space of a few years.⁴⁹⁶ In several factories the strength of protest even forced the director's resignation.⁴⁹⁷ By the autumn of 1970 the FDGB leadership was beginning to show a serious concern at the proliferating reports that indicated growing signs discontent in the workplaces.⁴⁹⁸ Grievances over goods shortages and speed-ups began to spill over into political criticism of the SED and its economic system. For example, as one Party Secretary reported, referring to the situation in the retail trade:

Individual customers are increasingly linking their criticism of the supply situation with expressions of discontent with the politics of the Party and government. They say that shortages of goods reflects the failure of the socialist economic system.⁴⁹⁹

The regime was now facing a severe dilemma – with hindsight Honecker described it as 'on the brink of catastrophe'.⁵⁰⁰ In order to overcome the recession and complete unfinished investment projects the intensity of work had to be raised and labour's share of national product reduced. On the other hand, it

496 Klenke, 2003.

497 Steele, 1977, p. 133.

498 Klenke, 2003.

499 Naumann and Trümpler, 1990, p. 113.

500 Przybylski, 1991, p. 103.

seemed essential to stem the rising tide of criticism by making concessions to the working class. In the autumn of 1970 a faction in the politburo, led by Honecker, reacted to the growing unrest by pushing the balance of policy towards the latter goal. Assuaging discontent was prioritised over the resuscitation of halted investments. The course shift could already be seen in December, in the shape of decisions to raise the minimum wage and pensions and to reduce industrial investment. It was sealed when Honecker's faction levered Ulbricht out of office early in 1971.

Clearly, several factors combined to undermine Ulbricht. These were, firstly, the displeasure in the Kremlin over his bullish insistence on East Germany's political independence from, and economic superiority over, the USSR.⁵⁰¹ Brezhnev evidently feared that his friendly overtures to FRG could develop into a special relationship between the Germanies.⁵⁰² Secondly, criticism mounted in 1970 over his management of the economy, including its overheating and the build up of debt.⁵⁰³ A decisive aspect, however, and one that is ignored or understated in most accounts, is that Ulbricht's crisis-management threatened to incite revolt. As one leading functionary recalled, 'Ulbricht sought to raise certain prices,' despite growing signs of social discontent, 'and that was the proximate reason why trust in him was withdrawn'.⁵⁰⁴ Only days after the change of course in December 1970 a workers' rebellion broke out in Poland, serving to awaken fears that similar events could occur in the GDR.⁵⁰⁵ As Mittag's advisor Claus Krömke recalls, the fear that another '17 June 1953' could occur 'was in everybody's mind, everybody!'⁵⁰⁶ Ulbricht was deftly cast by Honecker as a convenient scapegoat for the economic crisis and accompanying austerity while others, such as Mittag, who had shown just as much commitment to the same policies successfully crossed to Honecker's camp.

The settlement that emerged from the crisis was shaped in its main contours by the nature of Ulbricht's ouster and the end of the NES. The new leadership's interpretation of the crisis heaped blame upon the NES reforms and placed particular concern on mending relations with the Kremlin and with the working class. The ensuing period was thus marked by a greater concern for political stability and security, and for ideological orthodoxy; discussion of market reform became a taboo. The new administration also pledged to row back from rapprochement with the FRG, and to take measures to whittle away at the country's growing debt, commitments that, as the next chapter shows, were easily made but difficult to achieve.

501 Seidel, 1995, pp. 120–1.

502 Grieder, 1998, p. 35.

503 Sarotte, 2001, pp. 100–1.

504 Koziol interview, in Pirker *et al.*, 1995, p. 269.

505 Cf Kaiser, 1997, pp. 414–5.

506 Klenke 2003.

6. 'The Whip to Speed Growth, the Noose to Strangle'

The SED in the early 1970s has been aptly described as following a 'Bismarckian recipe,' in the sense that a conservative regime was stabilised by means of social policy.⁵⁰⁷ As a result of the retreat from austerity at the decade's beginning, the period was marked by what one politburo member, Günter Schabowski, has called a 'détente' between the working and ruling classes.⁵⁰⁸ Whereas the slogan had previously been 'work harder now, consume more in the future,' Honecker's new 'Unity of Social and Economic Policy' (USEP) saw the sequence inverted. 'The economy,' Honecker now proclaimed, is 'a means for the ever-improving satisfaction of the growing material and cultural needs of working people.'⁵⁰⁹ Workers, it was declared, deserve a respectable living standard and 'in exchange' should work harder. New social programmes were announced, including increases in welfare benefits, house building and pensions. Wages rose significantly, particularly at the lower end of the scale.⁵¹⁰ As we saw in the previous chapter, these measures were initially a response to workers' resistance to the exactions of 1970-1. However, as the immediate threat of 'another June 17, 1953' passed, they were to be redefined as a sweetener to accompany a new management offensive that went under the name of 'Scientific Organisation of Labour' (SOL).⁵¹¹

Announced in 1973, SOL addressed problems associated with the GDR's record-breaking employment quota - almost every adult of working age was now in employment - and with the rising intensity of fixed capital (often in the form of expensive, imported machinery).⁵¹² It was, essentially, a rationalisation drive designed to increase productivity by less expensive (or politically sensitive) methods than raising wages, investment or imports. The emphasis was on 'saving labour' and enabling the continuous and efficient use of equipment through the extension of the three-shift system, placing premiums on innovation and the quality of output and imposing a 70 per cent tax on enterprise payrolls.⁵¹³ It also incorporated a Taylorist agenda that saw sociologists and management experts brought into the workplaces to experiment with forms of job rotation and 'job enlargement' in order to increase work intensity and reduce the 'pores' of the working day.

The SOL and USEP, although no doubt helping to boost productivity and the regime's legitimacy, can not be described as unmitigated successes.⁵¹⁴ The SOL's 'achievements' of extending shift-work and the three-shift system in particular, and reducing the pores of the working day, led predictably enough to

507 Prokop, 1993, p. 193.

508 Schabowski, 1990, p. 32.

509 Zaitlin, 1995, p. 4.

510 The ratio of minimum to average wage fell from 1:2.8 in 1964 to 1:2.4 in 1978. Bryson, 1984, p. 111.

511 As one SED theorist put it, 'The creation of the will to work [...] is one of the main functions of social policy.' Strassburger, 1984, p. 134.

512 In 1975 the employment quota stood at 85 per cent for women and 95 per cent for men. Hübner, 1994, 177. On the campaign to intensify shift working, see Kopstein, 1997, pp. 166-7.

513 Plock, 1993, p. 44. One in six industrial workers were already on a three shift system in 1970, rising to one in four in the 1980s (Schneider, 1988, p. 74). This, in turn, required (and stimulated demand for) enlarged provision of creches, kindergartens and other welfare services.

514 According to Merkel and Wahl (1991, p. 10) productivity relative to West Germany rose to 39 per cent in 1975.

increased levels of stress and illness.⁵¹⁵ As for the social contract, it undoubtedly ameliorated the poverty suffered by a very considerable layer of the population,⁵¹⁶ but for at least some prominent members of the ruling class the consequences were perceived with unease. Günter Mittag, for example, argues that although the social contract helped to assuage the dangerous symptoms of discontent of 1970–1 its long-run effect was harmful. For the reforms, he maintains,

were based on the expectation that social improvements [...] would automatically, as it were, generate a greater desire to work, and thereby raise productivity. These expectations, however, proved to be unfounded. Welfare improvements were perceived as an entitlement rather than as an incentive to work.⁵¹⁷

The social contract threatened to backfire on the SED in another, subtler, way too. For, as Thomas Baylis put it at the time, it served to cement a relationship between rulers and ruled in which legitimacy became 'based essentially on popular approval of the regime's success in bringing about economic growth and satisfying popular demand for goods and services.'⁵¹⁸ Emphasising that improvements in the living standards of the masses was a central project of Communism tended to turn the *nomenklatura* into hostages to the material fortune of their subjects. How those fortunes were to develop over subsequent decades was to be determined critically by economic restructuring and the nature of East Germany's integration into a rapidly-changing and crisis-ridden world market.

Microelectronics: between internationalisation and autarky

It is perhaps ironic, given Honecker's image as a 'conservative' as against the 'moderniser' Ulbricht, that the major restructuring project under his regime involved a shift of investment out of traditional heavy industries and into high-tech areas of electronics, microelectronics and data processing. These industries grew at an average annual rate of 11.4 per cent through the 1970s, as against 5.5 per cent for industry as a whole, and at 12.9 per cent in 1980–8, as against 3.8 per cent for industry as a whole.⁵¹⁹ By the mid-1980s microelectronics had become one of the country's top four industries; *The Economist* was prompted to report that 'East Germany has made microelectronics the revolutionary barricade of the 1980s.'⁵²⁰

The computer industry was a venture that has since earned much derision: an attempted 'great leap forward' to match the technologies of the DMEs, it ended in failure, an expensive gamble that merely diverted resources from other sectors. There is general agreement as to the major causes of this debacle. First, it was a late starter. Although the electronics industry had attracted considerable investment in the 1960s, microelectronics did not receive a substantial commitment until the mid-1970s. By this time

515 Deppe and Hoß, 1980, pp. 40–54.

516 Klenke, 2003.

517 Mittag, 1991, p. 239.

518 In Heidenheimer and Kommers, 1975, p. 288.

519 Klenke, 2001, p. 103.

520 *The Economist*, 20.4.85.

microchip development in the USA and Japan had already advanced considerably, and each new generation of chips raised the financial, organisational and technological hurdles for newcomers seeking to enter the market. For later entrants in the West, such as the FRG, the industry could be hothoused thanks to technology transfer from the USA. The East German industry lagged its rival in the FRG by four or five years, and the USA by seven or eight.⁵²¹ It had little option but to copy western technologies by way of 'reverse engineering' -- and this became more difficult and expensive as miniaturisation progressed.⁵²²

Second, in the 1970s leading Western manufacturers began to expand their global production networks. Vertical dis-integration and subcontracting saw many production and assembly tasks delegated to overseas firms, enabling firms to specialise and to respond rapidly to changing global demand.⁵²³ Here, the East German *Kombinate*, being rigidly centralised, were at a structural disadvantage. Unwieldy organisations, they were ill-adapted to the priority of speed – in developing new technologies, in ramping production and so on – that is a trademark of the industry. The judgement of one East German worker, that '[i]n the GDR we produce computers with stone implements!', may be read as a tribute to human ingenuity but alludes to the fact that in a competitive global industry even a lag of five or ten years is a severe handicap.⁵²⁴

The GDR thus found itself developing an extensive range of microelectronic products within its own narrow borders and with relatively little technology transfer from abroad. Although its investment of scores of billions of Marks was immense relative to total national income, the figure was less than any of the major global players.⁵²⁵ In computers, it produced, as one politburo member bemoaned, just two per cent of the output of tiny Austria.⁵²⁶ Depending upon which estimates one takes, the GDR covered between 50 and 83 per cent of its requirements in microelectronic components, as against 20 to 30 per cent for the FRG.⁵²⁷ Production runs were correspondingly short, often a mere one per cent of the international norm.⁵²⁸ With relatively backward technology and small-scale production its products were extremely costly. The production cost of the 40kb chip in the GDR was 40 Marks, at a time when the world market price was DM 1–1.50, while that of the 256kb chip was 534 Marks when the world market price of similar chips was around DM 4.⁵²⁹ Over the course of the 1980s its share of the world market in microelectronics halved, to 0.4 per cent.⁵³⁰ An investment programme that had been designed to enable East German business as a whole to compete with technologically advanced rivals had become a white elephant, a devourer of copious state subsidies – its primary impact upon other industries was to reduce funds

521 Havlik, 1990, p. 137.

522 Barkleit, 2000, p. 26. Reverse engineering in microelectronics is never an easy task because 'the physical form of an integrated circuit gives no clue to the closely controlled manufacturing technology required to produce it'. Joseph Berliner, in Stokes, 2000, p. 178.

523 Lüthje, 1999.

524 Fuller, 1999, p. 42.

525 Christ and Neubauer, 1991, p. 44.

526 Stephan, 1994, p. 236.

527 Klenke, 2001, p. 87.

528 Kusch et al., 1991, p. 42.

529 Stephan, 1994, p. 236.

530 Altvater and Hübner, 1990, p. 16.

available for investment in them. It was to become one of the issues that sowed divisions and sapped morale within the *nomenklatura* over the course of the 1980s.

On the face of it, the microelectronics story appears to attest to the STEs' inherent structural inability to innovate and to compete with the West, and possibly to the irrational policymaking that was encouraged by a regime in which 'political ideologists' (or what the East Germans called 'concrete heads') had regained predominance over the 'technical specialists' that had come to the fore in the 1960s.⁵³¹ Yet a closer look reveals a more complex picture. Firstly, although the STEs were not innovators in this field, East German functionaries, managers and professionals showed no lack of willingness to embrace computer technologies. By the end of the 1980s, for example, clubs were proliferating at which kids learnt to construct computers out of televisions, typewriters and cassette recorders. A cautious welcome was even given to computer games.⁵³² At the industrial level certain achievements were chalked up. Admittedly, the most admirable were in the copying of imported semiconductors and in the fields of espionage and smuggling of western technology.⁵³³ But these did enable significant progress to be made.

Secondly, although the venture was a failure its motives were not irrational. It built upon solid foundations, including successful domestic electronics and data processing industries, a skilled workforce and advanced scientific infrastructure, as well as the example of a viable semiconductor industry in the USSR. As a generic technology microelectronics is of immense strategic and economic significance. Given its growing role in modern warfare its development was essential to upgrading the Warsaw Pact's military capabilities and exports, particularly with the aim of achieving nuclear first strike capability in the context of the New Cold War but also with a view to boosting arms sales to Third World conflict zones.⁵³⁴ Given the role played by technological rent in the formation of above average levels of profitability, moreover, those regions of the world economy that did not engage in the microelectronics revolution have tended to fall behind.⁵³⁵ GDR policymakers, as economic crisis set in during the 1970s, were acutely aware of this. Export yields per unit invested were steadily falling, along with the proportion of high-tech goods in East Germany's total exports.⁵³⁶ For the trend to be reversed a drive to automate and 'flexibilise' the engineering industry and the country's other major export earners was essential, and CAD, CAM, robotics, and other systems based upon microelectronic components were indispensable to this.⁵³⁷

Thirdly, the East Germans' aim was not autarky, either in distribution or production. As Charles Maier has put it, the hope was to 'mediate' between Comecon and the world market: to 'achieve a monopoly status in the Eastern bloc' and to exploit that position 'in order gradually to develop the expertise and

531 Fulbrook, 1991, p. 214.

532 These, according to a contributor at one conference on the subject, 'possess objective tendencies that enable children to absorb the ideas and values of socialism through play and fantasy.' Mühlbauer, 2000.

533 *Kombinate*, 1993, p. 95; Macrakis, 1997, p. 81.

534 Barkleit, 2000, pp. 53–8.

535 Klenke, 2001, p. 60.

536 Klenke, 2001, p. 54.

537 Deppe and Hoß, 1989.

resources to participate more successfully with the nonsocialist economies.⁵³⁸ The strategy, he continues, 'presupposed the continuation of a socialist bloc, even as [it] sought to make the East German economy more capable of participation in the nonsocialist [world market]'. As such, the microelectronics drive may be seen as an essentially rational, if belated and risky, strategic trade initiative, an attempt to create competitive advantage at least within the Soviet Bloc and, ultimately, to lock the sector into a virtuous circle of high productivity and profitability. In this regard some success was achieved, with hefty profits – often as high as 50 per cent – being reaped from trade with its Comecon partners.⁵³⁹

The perceived need to maintain a monopoly status within Comecon, however, only added to the existing obstacles to technological cooperation with the GDR's allies, notably the secrecy of the USSR's military-industrial complex. On the one hand, SED leaders were under no illusion that the GDR could develop the industry independently.⁵⁴⁰ On the other, the limited degree of cooperation achieved within Comecon left only one non-autarkic alternative: to import from and cooperate with Western companies. This avenue, however, was severely constricted thanks to the CoCom list that blocked Western exports of many microelectronic products, including semiconductor technology.⁵⁴¹ Indeed, this embargo was a core part of the rationale behind the GDR's microelectronics drive.⁵⁴² As a result, the GDR was forced to rely to an extraordinary degree upon subversive methods of technology transfer, in addition to secret deals with corporations such as Siemens and, especially, Toshiba. Thanks to the willingness of firms such as these to make illicit gains, the CoCom prohibitions were regularly flouted, and quite spectacularly in some instances, as with the import of two entire chip factories.⁵⁴³ These successes, however, did not come cheap. Smuggling was risky (and many high-tech shipments were detected and confiscated) and it could not come close to meeting the required demand. The services of 'non-socialist' firms could only be purchased at high cost, whether through price mark-ups or the bribing of employees.⁵⁴⁴ No long-term service agreements could be attached to contraband imports. Deals had to be shrouded in secret, rendering the sharing of information and cooperation in the further development of technologies highly problematic. Partner corporations were prone to abandon projects, even if already begun, in the face of political pressure from their governments.⁵⁴⁵ Further, given that traces of the involvement of partner corporations could not be erased from hardware, attempts to export such 'tainted' computers outside the Comecon area could be (and sometimes were) cancelled.

538 Maier, 1997, pp. 73–6.

539 Klenke, 2001, p. 80.

540 As Gerhard Barkleit has shown, (2000, esp. p. 22).

541 Under Reagan, CoCom restrictions on the most readily available microcomputers were lifted, but in conjunction with tighter rules on software and the maintenance of controls for the production of even unembargoed computers. Even this much liberalisation was against the wishes of the US Defense Department. According to Michael Mastanduno (1992, p. 269), the Pentagon was still urging 'comprehensive controls, even on personal computers, which Assistant Secretary of Defense Richard Perle claimed [...] could be used by the Soviets to target nuclear weapons'.

542 The *Financial Times* (3.10.89) once reported the suggestion of 'Western specialists' that 'East Germany might have been better off buying the chips far more cheaply on the world market.' To some extent it could and did. But for the most part it was barred from so doing.

543 Klenke, 2001, p. 68.

544 Barkleit, 2000, p. 104.

545 Barkleit, 2000, p. 105.

In the light of these considerations it would be misleading to conceive of East Germany's relatively autarkic road to microelectronics as a 'planned' or freely chosen outcome.⁵⁴⁶ There may have been some slight scope for planners to attenuate their monopolistic goals in favour of greater cooperation with neighbours. But following the path of other import substitution economies such as Brazil, which lowered the protective walls around its microelectronics industry and allowed firms such as IBM to move in, was not on the cards. This was not due simply to 'systemic factors' such as Communist ideology or the economic nationalism of planners. Vital too were geopolitical relationships and non-systemic (or only 'semi-systemic') factors, notably the CoCom list but also the USSR's military secrecy and East Germany's foreign exchange scarcity.

'Only fools don't take up loans'

As with many of his East European contemporaries, Honecker's policy involved, in Charles Gati's words, 'an attempt to move toward the West without appearing to move away from the East'.⁵⁴⁷ In Honecker's case, as we shall see, the attempt was marked by extraordinary degrees of ambivalence and equivocation. His rise to power had, after all, been in part due to his commitment to *Abgrenzung* (separateness, from the FRG). He had warned Ulbricht in 1970 that it is 'necessary to conduct the struggle against appearances of a "pull to the West", against the idea of a special relationship between the GDR and the FRG'.⁵⁴⁸ Détente brought the GDR tacit recognition by Bonn and a flurry of diplomatic approaches from other Western states. The GDR at last received worldwide recognition and UN membership. For Honecker, this marked a major triumph, and yet it also posed specific challenges to the GDR. Although Bonn's new *Ostpolitik* was developed in response to the actuality of the Berlin Wall, and recognised that the European states-system had solidified around the partition of Germany, it also made it more difficult for East Berlin to claim that 'revanchist West German imperialism' presented a major impediment to peace. To that extent the separate status of the GDR, while not undermined, was rendered more problematic. The Honecker regime's *Westpolitik* was therefore wary at first. Although important substantive shifts towards normalising relations with the West were made in the first part of the 1970s, these occurred beneath a strident rhetoric of *Abgrenzung*, in order to counter any suggestion that a reconsideration of German division could occur.⁵⁴⁹ The GDR, it was now declared, was a *nation* unto itself. When it came to *economic* integration with the Western world, however, Honecker was as avid as any of his peers.

Unbeknownst to the SED leadership, the rises in trade and borrowing that it encouraged were accelerating precisely during a transition point for the world economy. The postwar boom had reached its climax in 1969–73, encouraged by an extraordinarily loose monetary policy on the part of the USA and

546 See also Jörg Roesler, 1993a, p. 560. This is corroborated by the memoirs of Günter Mittag, the industry's prime promoter, in his (not implausible) claim that autarky was not the intention, but was enforced by 'external influences'. Mittag, 1991, p. 219 and *passim*.

547 Hanson, 1986, p. 146.

548 Kopstein, 1997, p. 71.

549 Mählert, 1998, p. 124.

Britain.⁵⁵⁰ As America's balance-of-payments deficit and dollar inflation brought the Bretton Woods fixed exchange rate system to the point of collapse, the Nixon administration opted to close the dollar-gold window and 'liberate' international financial markets – with the aim of reinforcing US hegemony by placing the dollar's pivotal role upon a new basis and shifting the locus of control of the world's financial system from state central banks further towards private (largely American) institutions.⁵⁵¹ Accompanying and accelerating the breakdown of the Bretton Woods regulatory framework was the emergence of off-shore currency markets.⁵⁵² In the wake of these developments, a world financial market began to re-emerge. The mid-1970s saw the loosening of capital controls in the USA and then Britain, followed by the deregulation of stock exchanges both of which contributed to logics of competitive deregulation. The age of financial globalisation dawned rapidly.

These changes facilitated a spectacular growth and centralisation of international banking, insurance, and securities markets. The role of finance capital in organising the restructuring of capital grew enormously, placing new types of constraint on national economic policymaking. Whereas in the 1930s states could restrict the overall level of money and credit in the economy, the internationalisation of production and banking during the postwar epoch, 'has destroyed much of the ability of [states] to enforce such restriction today. The huge bank funds that flow daily from country to country make it very difficult indeed for national states to control the national supply of buying power.'⁵⁵³ The deregulation of national capital markets gradually eroded the walls of that captive pool of savings upon which Keynesian policies in particular had been based.⁵⁵⁴ As Harman put it at the time, '[t]he era in which the state could protect national capitalism is drawing to an end.'⁵⁵⁵ The forms of globalisation described in chapter five had developed hand in hand with the expansion of national planning on the world scale. The 1970s saw the latter trend reach its apogee before retreating.⁵⁵⁶

The link between these changes in the Western world economy and the STEs occurred largely along channels of trade and credit, and involved a critical intersection between the sequence of crises mentioned above and the Eastern European STEs' gamble on pursuing growth through stepped up trade with the West. As table four indicates, external trade steadily outpaced intra-Comecon trade, particularly in the period of détente. Whereas in 1965 only about 30 per cent of these seven STEs' trade was with DMEs, by 1980 this had risen to 43 per cent.

550 Harvey, 1990, p. 145.

551 Helleiner 1994; Hudson, 2003; Gowan, 1999.

552 Although permitted and even encouraged by Washington and located in London these were kindled in part by the dollar deposits of Soviet and Chinese institutions. Held *et al.*, 1999, p. 201.

553 Harman, 1984, p. 116.

554 Monetarist economic policy was affected in a not dissimilar fashion, for the internationalisation of finance and the abolition of exchange controls ensured that the capacity of states to control the quantity of money circulating in the *domestic* economy was constrained too. See Smith, 1991, pp. 153–60.

555 Harman, 1977, p. 31.

556 Harman, 1984, p. 116.

Table 4: Foreign trade growth of USSR and six European STEs,⁵⁵⁷ annual percentage variation.⁵⁵⁸

	1966-70	1971-5	1976-80	1981-5	1986	1987
With STEs	8.2	19.6	12.1	4.0	17.0	8.2
With DMEs	11.6	27.5	14.6	-1.8	0.8	9.7

For East Germany trade with the West as a proportion of the overall figure grew from 1960 and throughout subsequent decades, as shown in table 5.

Table 5: East German trade with DMEs as percentage of total.⁵⁵⁹

	1949	1955	1960	1970	1980	1985	1989
Imports	34	27	22	27	30	40	53
Exports	35	23	20	22	24	48	49

Economic integration had been among the factors promoting détente and it, in turn, spurred proliferating forms of East-West cooperation and exchange. In Poland most famously but, as we have seen, in East Germany too, closer ties with DMEs now opened up the possibility of ‘import-led’ (or ‘debt-led’) growth. In part it was a strategy that appeared to bring tangible results. For example, GDR corporations had long been Eastern Europe’s leading automobile manufacturers, but in the 1970s their homespun Wartburgs and Trabantas were overtaken by the Fiats and Renaults produced under license in the USSR, Poland and Romania. In part, too, borrowing enabled the priorities of the 1971 ‘settlement’ – economic expansion, USEP, and the build-up of the security apparatuses – to be maintained despite adverse tendencies in the world economy. But a crucial additional factor lay in the ease of borrowing.

In the early 1970s booming world markets and a pronounced enthusiasm amongst international banks to lend encouraged a boom in bank-syndicated lending to countries of the Third World and Comecon.⁵⁶⁰ Loans tended to be of very large volume, at very low interest rates and with long maturities.⁵⁶¹ Debt servicing was rarely a problem, for it could easily be managed out of new loans. Banks lent freely and states and firms borrowed easily. The prevailing mentality was well expressed by Erich Honecker in his

⁵⁵⁷ Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania.

⁵⁵⁸ Adapted from Lavigne, 1991, p. 388.

⁵⁵⁹ Calculated from figures in *Statistisches Jahrbuch der DDR*, 1990, p. 277.

⁵⁶⁰ Kindleberger, 1996, p. 32.

⁵⁶¹ Stallings, 1992, p. 59.

claim, as reported by a Soviet foreign ministry official, that ‘in today’s world only fools would not take up loans’.⁵⁶²

Following the 1973 oil price hike oil-importers across the world stepped up borrowing in order to cover balance of payments deficits. Despite this increased demand, loose monetary policy combined with reduced world demand and the recycling of the OPEC countries’ surplus revenues to maintain attractive conditions for borrowing – real interest rates in this period sometimes even fell into negative territory. Western states, moreover, engaged in a race to provide STEs with soft export credits, as dampened world-market demand provoked heightened competition over sales to the small but seemingly stable Comecon market.⁵⁶³ As with Third World countries in the same period, the net debt of the STEs soared, as shown in table six.

East Germany was in the forefront in this regard. Even as the USEP was being prepared, the state planning commission was warning that the welfare programme could not be afforded. Its effect, the commission argued, ‘would be increasing indebtedness to the West and a ballooning domestic monetary overhang, as well as declining rates of capital accumulation.’⁵⁶⁴ Despite warnings from politburo members such as Gerhard Schürer, Horst Sindermann, and possibly Werner Krolikowski that the country was heading towards bankruptcy, an enormous trade deficit was allowed to build up over the course of the decade, financed increasingly by borrowing.⁵⁶⁵ The GDR’s net indebtedness to OECD countries increased during the latter half of the 1970s by more than 20 per cent *annually* such that by 1980 the per capita figure was higher even than that of Poland.⁵⁶⁶ East Germany was now highly indebted, and many commentators take the opportunity at this point to admonish the SED leadership for its foolhardiness. Yet the debt burden of many economies across the world was growing at a similar pace in the late 1970s. Money was cheap, and investing in economic growth and social stability were imperatives in an increasingly competitive world market.

Table 6: Net external debt of USSR and six European STEs, US\$ billion⁵⁶⁷

1970	1973	1976	1979	1981
5	11	42	70	81

⁵⁶² Adomeit, 1998, p. 127.

⁵⁶³ Van Ham, 1993, pp. 81–4.

⁵⁶⁴ Kopstein, 1997, p. 82.

⁵⁶⁵ Interview with Schürer, in Zimmermann and Schütt, 1992, p. 185; Przybylski, 1992, p. 52.

⁵⁶⁶ Kopstein, 1997, p. 84.

⁵⁶⁷ Adapted from Lavigne, 1991, p. 324.

Closer integration into the Western world economy was a gamble that STE policymakers pursued rationally, but given the relative weakness of their economies the odds of success were fairly long. Integration exacerbated their vulnerability to fluctuations in global demand, interest rates, and to the dictates of 'hard' world standards and prices which exposed their lagging productivity. Integration pulled the STEs into the circuits of world capital, over which their leaderships exercised woefully little control. The greater the level of integration, the less control over the pace and direction of economic development they had, and the greater grew their dependence upon DME technology and credits. Each STE was, gradually 'sucked into a chaotic, disorganised, world system,' as Harman put it, a process that involved an intermeshing between the economic crises of East and West.⁵⁶⁸ The result, paradoxically, could be a worsening of the trade prospects of weaker, sheltered economies such as the GDR, and the strengthening of the pull back towards 'soft markets' and autarky.

As with the growth trajectory of many Third World countries in the same period, each investment boom tended to raise levels of debt and balance-of-trade deficits. The path of import-led growth that some STEs, including the GDR, were pursuing relied upon a continued growth in world demand and low real interest rates. In part because powerful Western economic and political actors shared these interests, the world's leading economies reacted to the 1974–5 crisis with credit-fuelled expansion. Yet if such measures could hold off the imperative of major devaluation, they could not annul it. The failure of Keynesian tactics to resolve the crisis of the mid to late 1970s (a crisis that was symbolised by the neologism of the age, 'stagflation') was one of several factors that prompted key players in the USA and elsewhere to shift the rudder of economic policy towards austere budgets and tight credit. This provoked a devaluation of capital that, although worldwide in scope, was uneven in its impact, with particular devastation being wreaked upon weaker capitals and weaker regions of the world economy.

Black gold, brown coal

At the turn of the decade the GDR, along with most of the rest of Eastern Europe, suffered two major shocks, both of which were to raise unsettling questions of a geo-economic and geopolitical nature. The first, in 1979, involved a further hike in oil prices coupled with reductions in deliveries of oil from the USSR and coal from Poland. East Germany was heavily dependent upon oil, which was traditionally supplied at a low price by the USSR. In the 1960s worldwide price trends had favoured manufactures vis-à-vis raw materials, notably oil. The terms of trade of GDR manufactures vis-à-vis Soviet raw materials improved significantly, even relative to the world market trend.⁵⁶⁹ As we have seen, the SED's industrial policy in the 1960s had come to be based upon the expectation that oil prices would remain stable and low. That this strategy involved a gamble upon the continuation of the USSR's shift from plundering to subsidising its empire was already apparent in the 1960s, when competing demands from other markets – from Cuba to the FRG – led Moscow to restrict the flow to its German ally. Yet despite occasional disputes over oil

⁵⁶⁸ Harman, 1977, p. 31.

supplies, not to mention soaring world oil prices from 1973, East Berlin continued to bank on the expectation that even if Moscow raised its prices, it would do so at a rate less than that of the world market.⁵⁷⁰ Accordingly, the oil refining sector was expanded in the mid-1970s, with over DM 1 billion spent on imported equipment.

In the early 1980s East German energy policy faced a rude awakening. Coal imports from crisis-ridden Poland slumped and the USSR reneged on the delivery of a huge volume of oil, some of which was diverted to Poland. Meanwhile, beginning in 1975, the Soviet oil price had been rising steadily, until by 1985 the price charged to Russia's allies was higher even than the world market norm, which itself had soared at the turn of the decade.

Oil rapidly became a conflict point between Moscow and its allies, the GDR in particular. Challenged by Honecker, Brezhnev justified his country's position in the following terms:

Our economists, Erich, have calculated that the direct profits made by the brotherlands through the import of fuel and raw material imports from the USSR in the last five years come to fifteen million roubles, and in the next five the amount will approach thirty million. That is a huge amount.⁵⁷¹

Referring to East Germany's growing reliance on selling not only oil derivatives but Soviet crude itself, against Comecon accords, he went on to suggest that the brotherlands' real gains may be even greater than this figure suggests, 'as the recipients of Soviet deliveries commonly sell it and its derivatives on to capitalists'.⁵⁷²

In response, the Honecker leadership could do little but appeal to the GDR's importance to Moscow as its front-line ally. In a blustering note to Brezhnev, Honecker warned that the oil supply reduction represented nothing less than 'an earthquake under the foundations of the GDR'.⁵⁷³ This presage of doom was followed up in another exchange with the rhetorical question of whether 'it is worth destabilising the GDR and undermining the trust of our people in the Party and state leadership for the sake of two million tonnes of oil'.⁵⁷⁴ Similar fears were expressed by other SED leaders. Schürer, for example, warned his opposite number in Moscow of the destructive economic consequences of the Soviet decision, and, with allusion to the rise of 'counter-revolution' in Poland, reminded him 'that a healthy, socialist GDR surely plays a key role in Soviet strategy'.

Such appeals were in vain. That the USSR was diverting its oil to western markets was an early indication that, in crisis, motherland comes before empire. Its oil-importing allies, suffering from deteriorating terms of trade vis-à-vis both the USSR and the OECD, reacted in two ways. The first was to

569 Buchheim, 1995, pp. 357–8.

570 Kopstein, 1997, p. 93.

571 Hertle, 1996a, p. 46.

572 The attitude underlying this scam was well expressed by Günter Mittag, in a small circle of trusted colleagues: 'Where it's a matter of money, that's where proletarian internationalism and friendship between the socialist states ceases!' Loeser, 1984, p. 64.

573 Przybylski, 1991, p. 336.

574 Hertle, 1996a, p. 47.

reinforce the business ethic in relations with the USSR and one another. Planners became ever more concerned with investigating world market prices and haggling over the pricing of inter-Comecon trade.⁵⁷⁵ In 1980, for example, in deliberate retaliation for a reduction in Soviet oil supplies, the GDR reneged on a promise to purchase a Soviet colour television factory and bought from Japan instead.

The second was to seek to reduce their dependence on Soviet raw materials. In East Germany harsh decisions were now made in the field of energy policy. Plan criteria were altered to place greater emphasis upon energy efficiency in the hope of reducing consumption.⁵⁷⁶ Supplies to some industries were rationed, exacerbating the recession of 1980–2. Asphalt production was the worst hit, with output slumping from three million to one hundred thousand tonnes.⁵⁷⁷ An across-the-board closure of energy-intensive industries, however, was not deemed a viable option. ‘Because radical measures of that sort were not pursued,’ writes Mittag in his memoirs, ‘more had to be exported in order to import the same quantity of oil and gas.’⁵⁷⁸ Oil imports from non-Comecon sources were stepped up, their share rising from 4 per cent in 1979 to 14 per cent in 1982.⁵⁷⁹ Power stations were, with great difficulty, converted to burn lignite, and domestic lignite production was increased accordingly, as shown in table 7. In the 1980s, the lignite industry was to swallow fully one third of industrial investment and supply around three-quarters of total energy requirements.⁵⁸⁰

Table 7: Oil imports from USSR, and domestic lignite production (millions of t).⁵⁸¹

	1970	1973	1976	1980	1982	1983	1984	1985
Oil	9	13	16	19	17	17	17	17
Lignite	262	246	247	258	277	278	296	312

KoKo *versus* CoCom

If restrictions upon energy supplies represented a blow to the SED’s reliance upon the East, the same period also highlighted the difficulties of the orientation to the West. The world recessions of the mid 1970s and early 1980s saw the demand for many commodities slump and protectionism rise. Compounded by the decreasing competitiveness of most East German commodities certain sectors of industry, notably

⁵⁷⁵ Hanson, 1986, p. 145.

⁵⁷⁶ East German per capita energy consumption was twenty to thirty per cent higher than the FRG.

⁵⁷⁷ Falkner, 1994, p. 89.

⁵⁷⁸ Mittag, 1991, p. 277.

⁵⁷⁹ Schmidt, 1985, p. 293.

⁵⁸⁰ Welzk and Wilde, 1993, p. 138; Childs, 1998, p. 326.

⁵⁸¹ Adapted from D.I.W., 1989, p. 68, and Lavigne, 1991.

automobiles and chemicals, faced a rapidly diminishing world market share. Investments geared to western markets were devalued when those fell away.

As with the debt crises of the nineteenth century investment in new production for export back to the central economies of the system, although individually rational had proved collectively irrational.⁵⁸² At the decade's close the low interest rate regime that had encouraged import-led growth strategies was terminated, and in dramatic fashion. That as a result of the recent global credit explosion (to which the STEs had themselves contributed), demand would peak and interest rates rise – particularly in the capital-hungry USA – could have been predicted. What was not foreseeable, however, was the monetarist shift of the US Federal Reserve in 1979 that, coupled with unprecedented increases in arms spending and tax cuts, put a rocket under rising interest rates and led to a steep revaluation of the US dollar, the currency in which most international loans are denominated.⁵⁸³ Between 1972 and 1981 the 'preferential rate' of interest for governments' foreign debt rose spectacularly, from 5 per cent to 20 per cent.⁵⁸⁴ The price of debt, in other words, both accumulated and current, soared. Given that 40 per cent of its foreign debts were short-term (under a year), East Germany was especially hard hit.⁵⁸⁵ The problem was compounded by world recession. Many import payments were predicated upon expected exports which then did not materialize. For example, the GDR purchased a state-of-the-art steel factory from Austria, planning to pay for it through subsequent steel sales on the world market. Hardly had the contract been signed when steel prices fell through the floor. The shortfall had to be made up by borrowing.

By 1980 servicing the interest on existing debt was equal to roughly half of the country's hard currency earnings, rendering further borrowing unavoidable. But in the context of a global credit crunch in which several countries (including Poland) defaulted while others (including Yugoslavia and Romania) teetered on the brink of defaulting, the GDR now faced a credit boycott from international banks. The search for new loans went from bank to bank, in France, Austria, Japan, Britain and Kuwait, but in vain. Insolvency loomed, and that, leading officials feared, 'would mean the ungovernability of the GDR.'⁵⁸⁶ Borrowing had enabled imports to consistently exceed exports. Now the situation had to be reversed, only now, not only did the principal have to be paid back but soaring interest payments too. 'The whip to speed growth,' as Nigel Harris once described the risks of debt-led accumulation strategies, 'could as easily turn into a noose to strangle.'⁵⁸⁷

The SED leadership faced its gravest crisis since 1971 or even 1961. Somehow, exports to the West had to be raised and imports throttled for default to be avoided. But could a balance of payments equilibrium be restored without risk to social or geopolitical stability? Those who had, in the 1970s, warned of the dangers of mounting debt had offered only vague or risky solutions. One had been to seek aid from the USSR, as had occurred in 1953, 1958, and 1960. Yet, as explained above, Moscow was now as much part of

582 Schwartz, 2000, p. 301.

583 Scammell, 1983, p. 220.

584 Harris, 1983, p. 117.

585 Lambrecht, 1989.

586 Schalck, in Bahrmann and Fritsch, 1990, p. 50.

the problem as the solution. In Kopstein's words, 'by 1981, the Soviets were no longer in a position to do what they had always done when necessary – bail out the SED.'⁵⁸⁸

Ultimately, debt rescheduling was narrowly averted and respectable balance sheets restored, temporarily, in 1982. The strategies that achieved this, however, were either pursued half-heartedly or exacerbated other contradictions. The reflex solution, firstly, was to pursue ways of imposing the costs upon the working class, through intensification of labour, lower consumption, and the abandonment of subsidies on basic goods. Prices were raised and wages held down. Commodities were diverted from domestic outlets for export to the West, whilst imports were cut, resulting in severe shortages of consumer goods. Some officials began to consider the need for radical austerity measures, including factory closure programmes, significant unemployment, and even, according to one leading FDGB functionary, pushing women 'back to the hearth'.⁵⁸⁹ Nonetheless, the influence of the settlements of 1953 and 1970–1 ran deep, and was reinforced by events across the Oder. Even as a large-scale austerity programme was being considered in 1980, the Polish working class arose once again, inspiring fear in the ministries of East Berlin. Although significant levels of unemployment did make an appearance – in East Berlin perhaps as many as 30,000 – major closure programmes and austerity measures were avoided.⁵⁹⁰ As Mittag recalls,

Burdened with the trauma of 17 June 1953, and compounded by the mass strikes in Poland in 1980–1, every proposal for economically sensible price formation was rejected amidst talk of the "incalculable risks" of the eruption of counterrevolution. [Austerity measures] would certainly have led to social disorder with unforeseeable consequences, [and] probably to a catastrophe.⁵⁹¹

The effort to cut imports, secondly, involved the imposition of strict import quotas upon industry and the promotion of import substitution. The debt crisis – and, as discussed above, the energy crisis – strengthened this inherent tendency of the STE. Already in the mid-1970s, 'DIY production' had been expanded by decree: firms were compelled to produce consumer goods to the value of 5 per cent of turnover. The credit squeeze and hard currency scarcity of the early 1980s now added to the effect, prompting further increases in the internal production of inputs.⁵⁹² By 1985 fully 18 per cent of equipment was produced in-house – a rise that was mirrored by a slump in the level of investment goods imported from DMEs.⁵⁹³ Given the inefficiencies of monadic 'D.I.Y.' production, this was far from an ideal as a means of escape from the threat of default. Although many industries were still able to ship products to the USSR lot sizes that were unheard of in comparable industries in the west, the D.I.Y. 'rationalisation workshops' that the *Kombinate* established to service their internal components and servicing requirements often led to very low lot sizes indeed.⁵⁹⁴ Robots, for example, were designed and produced in seven

587 Harris, 1983, pp. 192–3.

588 Kopstein, 1997, p. 92.

589 Simon, 1990, p. 43.

590 Büscher and Wensierski, 1984, p. 25. For an insight into the gravity of the situation as perceived by SED leaders see Hertle, 1992b.

591 Mittag, 1991, pp. 38–9, 68.

592 As Maier puts it (1997, p. 76): 'As always, the penury of convertible currencies remained the overwhelming motive for home production.'

593 Whereas this figure had grown at an annual average of 23 per cent in 1976–80 the equivalent for 1981–5 was *minus* six per cent. Lavigne, 1991, p. 126.

594 Voskamp and Wittke, 1991.

hundred separate factories, a fifth of the total. In 1987 each one of these built on average only 6.6 robots.⁵⁹⁵ In comparison, on the global scale several dozen firms dominate the world market, most of which specialise in the field.

A third factor that served to ward off the threat of bankruptcy came in the form of interest-free loans of DM 1 billion Marks in 1983 and DM 950 million in 1984 from an unlikely quarter: the FRG. These were arranged by a senior Stasi officer by the name of Alexander Schalck-Golodkowski (or 'Schalck' for short, a homonym of the German for 'scoundrel') together with West German CSU leader Franz-Josef Strauss, and were coordinated by the latter through a consortium of Western banks. Although small compared to the GDR's total debt they were critical to rescuing the beleaguered economy in the eyes of international finance. Indeed, Schalck's declared motive in initiating the loans was to rescue the GDR from impending default which, he recalls, had raised the question of 'to be or not to be' for the GDR.⁵⁹⁶ Being so dramatically propped up by one of the world's strongest economies East Germany's credit rating returned to a tolerable level. Loans from international banks resumed, and drastic decisions could be postponed.

The final means of escaping from the debt trap involved an urgent attempt to increase exports, particularly to DMEs. Bringing in hard currency became the paramount determinant of economic policy. The entire foreign trade apparatus was mobilised to this end and the short-term results were impressive. Exports to the OECD area, largely of raw materials and intermediate goods, rose by an average of 26 per cent each year from 1980 to 1982, enabling major debt repayments to be made: the net transfer to international creditors in 1982 alone was greater than the total inward transfer from 1970–75.⁵⁹⁷ In addition to established forms of trade, unorthodox methods were encouraged. One example mentioned above was the reselling of Soviet oil. Despite the reduction in supply, East Germany's greater energy self-sufficiency meant that a substantial remainder still existed which, given the continued discrepancy between Soviet and world prices, could be profitably sold on hard-currency markets. In the 1980s 22 per cent of East German exports to the FRG were oil products – an extraordinary figure given that the country produced no oil itself.⁵⁹⁸

A central role in developing such 'unorthodox' means of restoring balance of payments equilibrium was a shadowy organisation that was known as KoKo (from *Commercial Coordination*) and run by Schalck. KoKo's origins lay in state-run covert trading operations, especially smuggling, in the 1950s – a time when around a quarter of imports were illegal.⁵⁹⁹ From 1971 its remit was expanded, as détente opened greater opportunities for business with and industrial espionage in the West. KoKo operated partially outside the official planned economy, and Schalck himself was answerable not to the Foreign Trade Ministry but directly to Honecker, Erich Mielke and Mittag. Its income was generated largely from a hidden empire of

⁵⁹⁵ Deppe and Hoß, 1989.

⁵⁹⁶ Seiffert and Treutwein, 1991, p. 34.

⁵⁹⁷ Chowski, 1985, p. 6.

⁵⁹⁸ Klenke, 2001, p. 53.

⁵⁹⁹ P. F. Koch, 1992, p. 17.

trading firms run with the assistance of trustees in the 'non-socialist abroad.' These operated as 'normal' capitalist businesses but funnelled profits to East Germany.

Although after 1989 Schalck would emphasise that the outfit was simply 'a company with important and internationally recognised trading branches,' KoKo was rather more than that.⁶⁰⁰ Integrated into the Stasi, KoKo was the perfect instrument for covert operations which were either based in the West, evaded CoCom restrictions, or otherwise embarrassed the official Communist ideology.⁶⁰¹ KoKo firms acquired western equipment to ameliorate critical shortages of spare parts, luxury goods for the *nomenklatura*, and consumer goods when popular discontent was deemed to be at dangerous levels. They merchandised GDR products and, increasingly, its material heritage, such as museum treasures, artworks and antiques. They proved adept at turning East Germany's privileged trade relations with the FRG and its *de facto* economic membership of the EEC to profitable ends, for example, by repackaging Romanian and Korean clothing that could not be exported to Western Europe due to protectionist restrictions as 'East German' produce for sale on EEC markets. They also engaged in commodities and stock market speculation, and insurance fraud. KoKo organised East Germany's trade with South Africa when the official position was a boycott. As a major weapons dealer, it bought and sold Nato weaponry, and even, allegedly, supplied Soviet-bloc weapons and military technology – including Kalaschnikows, mines and explosives – to the US military and to the CIA, which channelled them to the Afghan rebels, Unita and the Contras.⁶⁰² KoKo firms arranged deals with western and Japanese pharmaceutical firms, offering East German citizens as guinea pigs.⁶⁰³ Finally, it collected blood that citizens had donated on grounds of humanitarianism and of 'international solidarity' and sold it to the FRG in order to help the state balance its books.⁶⁰⁴ One author, paraphrasing Brecht's Macheath, summed up KoKo's motto as 'First hard currency, then morality.'⁶⁰⁵

In the 1980s KoKo came to feed the official economy with a regular DM 2 billion annually – roughly a seventh of total hard currency earnings, and a significant assistance given an almost permanent trade deficit. It was also responsible for the rise in value of East German assets held abroad to over DM 100 billion. With the stagnation of the dominant state-owned domestic sectors of the economy at the end of the decade its role was to become more pronounced.⁶⁰⁶ In short, the attempt to alleviate the symptoms of the debt crisis served to strengthen the reliance of the 'official economy' upon an organisation that was not only semi-detached from the central planning process but was based heavily upon speculation in, and (often illicit) trade with DMEs.

600 Seiffert and Treutwein, 1991, p. 68.

601 Evading CoCom restrictions was viewed benignly by Bonn, but secrecy was nonetheless imperative in order to conceal the operations from Bonn's allies. Over issues such as this, intelligence experts suggest, a degree of cooperation between KoKo and Stasi and the West German secret services developed.

602 *die tageszeitung*, 5.12.1990; E. Koch, 1992, pp. 228–261; Przybylski, 1992, p. 309.

603 The (sometimes severe) side effects of which included sickness, hair loss and heart attacks. *Der Spiegel* 1/1991.

604 Wolle, 1998, p. 208.

605 Bahrman and Fritsch, 1990, p. 92.

606 'State within the state,' was the epithet given to it by politburo member Werner Krolikowski.

Conclusion

The mid to late 1970s was a critical moment in the process of economic internationalisation. Its great leap forward within the 'triad' of North America, Western Europe and the Far East had occurred during the long boom; yet even when the ending of continuous growth and the resurgence of mass unemployment provoked renewed pressures to protectionism the basic trend was not reversed. For the STEs too, this was a transition moment. The world economy as a whole was leaving behind a period of rapid and relatively easy growth to enter an era of lower returns on investment, greater turbulence and social polarisation. However, the transition was handled differently in East and West. '[B]eset by social conflict and confusion over policy,' as Charles Maier has described, 'Western leaders eventually opted for the discipline of the world market. While the West adjusted, the East unsuccessfully sought to resist.'⁶⁰⁷ Internationalisation, privatisation and marketisation, it would appear, combined in the West to enable businesses to spread their operations beyond national borders. The STEs, meanwhile, continued to attempt to replicate the world economy within national straightjackets.⁶⁰⁸ In this respect they demonstrated the vicious circles that protectionism can generate: that the shielding of one inefficient industry tends to provoke the need to protect others due to the higher prices of inputs demanded by the first; and that vested interests develop around these industries, guaranteeing continued protection.⁶⁰⁹

Consequently, the industries of the STEs were for the most part characterised by low specialisation and, related to this, a high depth of production.⁶¹⁰ In the late 1980s, with its share of world trade at 1.1 per cent, the GDR produced an astonishing 80 per cent of goods available on the world market.⁶¹¹ In 1987 total car production was only 218,000, as against 4.3 million in the FRG or 4 million by Toyota alone.⁶¹² Diversification, limited markets, small scale production and low productivity tended to reinforce one another, as was shown in the case of microelectronics. Here, it was suggested, the failure lay less in the shift into a high-tech sector as in the overambitious attempt to develop, largely autonomously, almost the entire range of products on the world market with only meagre resources. This was dictated not by the immanent logic of the command economy, but rather by its interaction with wider changes in the world economy and states-system. Specifically, at a time when western firms were selling to markets in the USA, Western Europe and elsewhere, their Soviet-bloc counterparts were selling primarily to the relatively tiny Comecon zone; and when many of the West's leading corporations were reorganising production on a transnational basis, any equivalent internationalisation within Comecon was unable to get much beyond first hurdles.

And yet these last two paragraphs do not fully capture what the world-economic transition involved for either West or East. The story of the former opting for 'the discipline of the world market' while the

⁶⁰⁷ Maier, 1997, p. 91.

⁶⁰⁸ Rather like the 'patriotic Prussian lieutenant' who, in a story told by Engels (1989 [1888]) in his critique of autarky, 'went into a shop and asked for a globe, not a terrestrial or a celestial one, but a globe of Prussia.'

⁶⁰⁹ As Engels noted in the same piece, 'the worst of protection is that when you once have got it, you cannot easily get rid of it'.

⁶¹⁰ One East German shipbuilding firm, for example, produced almost all the elements for the production of ships, from electronics all the way through to the galley fittings. Priewe and Hickel, 1991, p. 79.

⁶¹¹ Bauman, 1990, p. 259.

⁶¹² *The Economist*, 30.4.88; Kurz, 1991, p. 95.

latter 'resisted' involves an element of empirical imprecision and omits a vital theoretical consideration. First, it is not quite true that the East 'resisted' the discipline of the world market. As this and previous chapters show, the rulers of the East were obsessed with catching up with world productivity standards. They established hundreds of 'red MNCs' that operated in most countries of the world.⁶¹³ Their pursuit of integration with the world market was in part motivated by a concern to spur and finance domestic adjustment – for example the shift from old industries into new – even though the major effect of the borrowing that this involved was to enable the deferral of harsher measures of restructuring and austerity. That this strategy of import-led growth was blown to pieces resulted not simply from the STEs' reluctance to reform but also from the fact that the surges in their integration into the circuits of world capitalism occurred concurrently with the climax and cessation of the long boom. Whereas in the early and mid 1970s the low cost of borrowing encouraged the strategy of import-led growth, accumulated levels of debt proved unsustainable when interest rates soared, provoking acute crisis – in East Germany and Poland, but also in Peru, Mexico and elsewhere.

Secondly, that the world economy emerged from a period of flux into a new and more defined phase of 'disciplinary neoliberalism'⁶¹⁴ was only in part a product of Western leaders 'coping with confusion' – the crisis of policymaking in the 1970s as Keynesian techniques failed to remedy the manifestations of economic downturn. Its deeper causes lay in the fact that economic internationalisation had strengthened a coalition of private financial interests, MNCs and financial officials who supported the liberalisation of trade and capital flows, and in the backing given to such policies by militant conservative governments. Pinochet's Chile was the testing ground but the decisive moves were made by Washington, under Carter (and Paul Volcker, his appointee at the Federal Reserve) and Reagan, as well as Thatcher. The assumption that these governments followed was that restrictive monetarist policy combined with trade and capital liberalisation, although attenuating some aspects of state capacities, would on the whole benefit more efficient and powerful capitals and discipline the weak. Applied to the world stage, the strategy can be seen as a gamble on the prospect that US and UK businesses would thrive compared with their rivals elsewhere: that free international trade rules would benefit the economies of the West and disadvantage the South and East. In this sense, Volcker, Thatcher and others had learned an old truth from the previous experience of imperialist powers: that a country's debt crisis can provide an opportunity for powerful states to supervise the reorganisation of its internal social relations in the interests of their own capitals.

This is, perhaps, a counter-intuitive conclusion. For international trade liberalisation, it is well established, brings benefits to all parties. After all, as David Ricardo and his successors have shown, the principle of comparative advantage ensures that even countries all of whose industries are uncompetitive will nevertheless benefit from international trade. If this argument were shown to be false, the current debate over globalisation would be transformed, as would our understanding of the dilemmas facing the STEs in the 1980s. In fact, rebuttals of Ricardo and his successors have been advanced, the most devastating of which is that of the American economist Anwar Shaikh. Comparative advantage in an open free-trading

613 'Indeed,' Leslie Sklair noted in 1991, 'until very recently, the Comecon countries were far more active in the rest of the world than capitalist TNCs were in them.'

614 Gill, 1995.

system, Shaikh shows, tends to disproportionately benefit those regions with concentrations of absolute ('competitive') advantage.⁶¹⁵ Trade between such regions and those with little or no absolute advantage, he shows, instead of bringing to mutual benefit tends to lead the latter into a situation marked by chronic trade deficits, capital outflow, chronic debt and 'foreign exchange strangulation.' The 'absolutely disadvantaged' country may then have little option but to eke out an export position in niche areas of geographically-determined local advantage. Although he highlights the existence of countervailing factors, most obviously capital export from core to peripheral regions, Shaikh demonstrates that powerful mechanisms exist within liberal capitalism that tend to deepen geographical polarisation.

In this light, the new phase of globalisation that set in even as Shaikh was penning his argument may be conceived as (i) a turn towards privatisation and the liberalisation of trade and capital flows which (ii) strengthened tendencies towards polarisation in which market leaders and firms with monopolies from product or process innovations – typically the most advanced enterprises and sectors based in the OECD – stood to reap surplus profits on an enhanced scale while others – notably those based in peripheral areas of the world – suffered declining terms of trade, debt and foreign exchange strangulation.⁶¹⁶ In the light of (ii), the choice that faced STE business leaders and politicians in the 1980s was not that between prioritising their vested, rent-seeking interests as managers of protected but stagnating economies and the long-term interests of capital accumulation that full integration with the world market would serve. Rather, the latter course involved the embrace not of the benefits of 'free and fair' trade but of a world market that was

615 His reasoning is as follows: In Ricardo's model we are invited to imagine a country in which cloth and wine are produced and sold at the price ratio (P_c/P_w)¹ on the domestic market. Across the channel is another, in which cloth and wine are also produced and sold locally at a different price ratio (P_c/P_w)². Suppose the price ratios are different. If the price of cloth relative to wine is lower in the first than in the second, that of wine relative to cloth must be lower in the second: i.e. in each country one commodity will be *relatively* cheaper. Ricardo proposes that by concentrating its production towards the relatively cheaper good and exporting part of it in exchange for the other good, each country would end up better off by engaging in international trade – a given set of inputs would translate into a greater set of outputs. This proposition does not depend on the *absolute* costs of wine and cloth in the two countries. Even if they were cheaper in both, trade would be beneficial, if the country with inferior efficiency specialises in the lines of production where its inferiority is the least, and the more efficient country, with more advanced technology, concentrates on its areas of greatest superiority. Taken by itself, this principle says nothing about what *actually* happens in international trade. Exports and imports, after all, are undertaken for the sake of profit, not for 'gains' to the nation. Profits depend on absolute costs – the lower-cost producer is generally able to beat its rivals. Trade between two *advanced* countries would generally include commodities from efficient enterprises with *absolute* advantage. But how might a *backward* country hope to enjoy the same sorts of gains from trade if most of its producers produce at high absolute costs? The answer to this comes Ricardo's second proposition, a *descriptive* one: In conditions of free trade the pattern of trade *will* in fact be regulated by the principle of comparative advantage – regardless of any absolute differences in levels of productive efficiency. The sum of the two propositions is the "*law of comparative costs*": if permitted, free trade will end up being regulated by the principle of comparative (not absolute) advantage, and the resulting gains from trade will be shared among the trading partners. But what is the mechanism for ensuring that free trade *does* lead to such a mutually advantageous result? For Ricardo the mechanism was the relation between the quantity of money and the level of prices. In his example, Portugal (P) can produce both wine and cloth more cheaply than England (E). Trade between them would therefore initially be all in one direction, with P exporting wine and cloth, and E paying for it in gold. But then an equalising mechanism comes into play: the outflow of gold from E decreases its money supply, and therefore lowers prices in E; whilst the opposite occurs in P. As long as the imbalance in trade persists, this mechanism would cheapen English products and make the Portuguese more expensive, until the point was reached when E could undersell P in one of the products. Thus, absolute advantage is converted into comparative advantage. Against this, Shaikh, following Marx (e.g. 1981, pp 685–6), refutes the contention that there is a necessary link between changes in the supply of gold and the level of prices. Instead the primary effect of an outflow of gold from E would be to diminish the supply of loanable capital. The continuing drain of gold would tend to raise the interest rate, leading to lower investment, and lower production. In P, meanwhile, the opposite occurs. In this analysis E's absolute disadvantage will be manifested in a chronic trade deficit, balanced by a persistent outflow of gold. Then, either sterling would come under pressure and collapse or, because of the difference in interest rates between the two countries, Portuguese owners of capital will begin to lend to E. Short-term financial capital would flow; the rate of interest in E would begin to fall, and that in P rise. The upshot: E running a chronic trade deficit, covered by international borrowing, which it would have to repay plus interest; a more or less constant outflow of capital from E to P. Shaikh also refutes the neo-classical updates of Ricardo's case – but here is not the place for an exposition. See Shaikh, 1980.

616 See Tony Smith, 2002, also Freeman, 1999. Smith and Freeman argue that the accruing of surplus profits to some capitals and under-average values to others tends to exacerbate economic unevenness on the spatial plane.

dominated by the USA and its allies, and was in the process of being reshaped in ways favourable to their economic and political interests and disadvantageous to many of the world's weaker capitals, such as those of the STEs. In the 1980s, therefore, the Eastern European STEs were in a double-bind. They were torn between autarky in its national and Comecon forms, spelling stagnation, and closer integration into the world market, which bore the immediate threats of debt and dependency and the longer-term prospects of takeover by Western MNCs or simply bankruptcy.

7. Between Comecon and the World Market

The dilemmas described in the previous chapter notwithstanding, the East German regime did not appear to be in particular trouble over most of the 1980s. Economic growth was slowing, but the decline was in a similar league to that of most other European STEs during the same period and, even if lower estimates are taken, not of a different order to that of many western economies such as Greece, the Netherlands or even the FRG.⁶¹⁷ Western observers such as the political scientist Gert-Joachim Glaessner could write that ‘during Honecker’s era of over fifteen years, the GDR [...] has gained internal stability’.⁶¹⁸ Others commented that the country’s economic success and welfare system had contributed to the perception that Honecker had become a popular leader, even a ‘national father figure’.⁶¹⁹ Berthold Beitz, managing director of the West German steel giant Krupps, felt able to congratulate the SED leadership on the ‘increased sense of self-confidence’ that it had gained over previous decades.⁶²⁰ The evidence from archives, interviews and memoirs suggests that within East Germany, a strong awareness of economic and social problems existed but few doubted the fundamental stability of the system. That the decade appears in retrospect as one of relentless decline is in part because we now know more about underlying economic problems that were not captured by gross growth figures (notably the stagnation of investment, levels of debt and exports to western markets), and because what at the time were generally regarded as difficulties faced by an otherwise stable Soviet bloc appear in hindsight as signs of terminal disintegration.

If geopolitical competition on the basis of backwardness had locked the USSR and its allies into war-economic structures,⁶²¹ the onset of world economic slowdown, and the failure of reforms to halt relative decline, served simultaneously to tighten and loosen the lock. On the one hand, the *prospect* of further relative decline strengthened calls for radical reform, certainly for participation in the worldwide trend away from strategies of ‘national economic development’ and perhaps for the abandonment of the command economy altogether. By the mid-1980s Poland, Hungary, China, and Vietnam had all turned in this direction. On the other hand, the *fact* of continuing relative decline meant that any serious opening to global competition would be that much more destructive, involving larger-scale restructuring, major bankruptcies and mass unemployment, as well as the prospect of greater resistance from those – managers and workers in weaker sectors, and the military – who would suffer most.

617 According to Merkel and Wahl’s estimates (1991, pp. 27, 61) East Germany’s per capita growth rate fell from an annual average of 3 per cent in the 1970s to 0.6 per cent in the 1980s. For Kornai (1992, p. 200) growth increased on average by 2.8 per cent per year in the 1970s, falling to 1.8 per cent in 1981–8. See also Schwartz, 1988 p. 718. At one stage *The Economist* (6.5.1985) was even able to announce that ‘East Germany is quietly emerging as Comecon’s best performer’.

618 Löw, 1991, p. 125.

619 Ardagh, 1987, p. 325.

620 Beitz, 1989, p. xiii.

621 As Alex Callinicos has put it, 1991, p. 44.

Diminishing returns of empire

The dawning realisation in Moscow that the STE structures were ill-adapted to contemporary changes in the world economy was intensified in the late 1970s and early 1980s by debates over the economic burden of arms expenditure. An underdeveloped imperial power, the USSR was obliged to support the bulk of its bloc's military outlay upon a comparatively small economic base. Its ratio of arms spending to investment was already the highest in the industrialised world, and although its European allies spent less, most of them (especially the GDR) devoted a substantially higher proportion of GDP to the military than did their Nato counterparts. Against the backdrop of a continual widening of the technology gap with the West and with oil revenues beginning to fall, the question of whether the USSR could continue to compete in the arms race grew ever more pressing. The perception of many policymakers, notably Gorbachev, was of a slowing economy that contrasted with constantly rising military expenditure.⁶²² Although military spending as a proportion of output did not rise in the decade before Gorbachev's accession, the prospect that the USA was willing and possibly able to develop the technology to ratchet the arms race up yet another notch did alarm Soviet military and political leaders.⁶²³ According to Boris Kagarlitsky,

The emerging lag in the field of modern technology produced a feeling of horror among the military especially when the United States proclaimed its idea of 'space-based defence.' Thus not only the lower classes were seized with discontent but also a significant section of those at the top.⁶²⁴

If its inability to match Reagan's 'Star Wars' project inspired 'horror,' Moscow's failure to deploy its existing military force to subjugate resistance to its allied regime in Afghanistan inevitably raised questions as to the viability of Soviet hegemony elsewhere. In particular the collapse of the Polish economy and the rise of *Solidarnosc* in 1980 sent shock waves through Moscow and the capitals of Eastern Europe. With hindsight, Jacek Kuron has suggested, this was 'the moment when the totalitarian system in Poland was broken.'⁶²⁵ The strength of *Solidarnosc* was such that Moscow was extremely reluctant to intervene, with KGB chairman Andropov even concluding that 'it would be impossible now for us to send troops to Poland.'⁶²⁶

If the USSR had, in the first postwar decade, gained considerable wealth from its empire, from the mid-1950s that had begun to change. The terms of trade swung away from Soviet advantage.⁶²⁷ Concessions were made to the Eastern European allies, particularly when popular uprisings or the threat of economic collapse prompted the bailing out of local elites. The 'value of empire' began to decrease.⁶²⁸ In the

622 Küchenmeister, 1993, p. 191. Whether Gorbachev's perception was accurate is another question; see fn. 8.

623 From the (limited) materials that I have read on Soviet military spending, it appears to have tracked overall economic growth fairly closely under Brezhnev and his successors, only rising sharply from the trend in 1989. See Dibb, 1988; Collins, 1997; Adomeit, 1998.

624 Kagarlitsky, 1990, p. 342. Gorbachev appears to have shared this concern, as indicated by Hannes Adomeit, 1998, ch. 3.

625 Rees, 1999, p. 37.

626 Adomeit, 1998, p. 141. How different might events have proceeded if this information had been conveyed to *Solidarnosc* members who opposed the strategy of 'self-limitation' that leaders and advisers such as Adam Michnik and Bronislaw Geremek had justified precisely in terms of the threat of Soviet military intervention. See Barker, 1986; Ost, 1990; Goodwyn, 1991; Stefancic, 1992.

627 In the 1960s this was in part a reflection of world trends in oil prices vis-à-vis manufactures.

628 Bunce, 1985.

1970s and 1980s, as discussed in chapter six, Moscow hiked the oil prices charged to its allies closer to world levels, a move which helped to veil the scale of its economic plight but at the cost of undermining its hegemony – for pipelines carrying cheap oil had hitherto complemented military might as the skeleton that held Comecon together.⁶²⁹

For the economies of the European STEs, as for much of the Third World, the 1980s was a ‘lost decade’. Whereas the 1970s saw a net transfer to the GDR, through borrowing, the 1980s saw the reverse, only more so. Thus, in 1982 alone, debt repayments amounted to more than total net borrowing from 1970–75. Throughout the early part of the decade, around forty per cent of hard-currency export earnings were swallowed by debt-servicing. In the GDR and across Eastern Europe, resources available for investment were squeezed, contributing to further relative decline. The share of the Eastern European STEs in world exports fell steadily from 6.1 per cent in 1970 to 2.8 per cent in 1989.⁶³⁰ This was accompanied by ‘trade involution’. The exports of the USSR and its six European allies to OECD countries had grown at an annual average of 23.5 per cent in the early 1970s and 19 per cent in 1976–80 but this slumped to *minus* 1.3 per cent in 1981–5.⁶³¹ Whereas in 1980, 54 per cent of Comecon members’ trade was with one another, by 1986 this had risen to 65 per cent.⁶³²

Despite the bloc’s ‘inward turn,’ the obstacles to Comecon integration actually became greater. Although various projects in the field of technological cooperation – a sort of collective import-substitution in high-tech fields such as nuclear energy, biotechnology and electronics – did reach the planning stage, and some substantial joint enterprises, such as the Kalinin-Robotron computer partnership, were initiated, these were belated initiatives. More significant was the turn of Comecon countries, with an eye to attracting advanced technology and hard currency, to encourage forms of co-production and even joint ventures with DME firms. By the late 1980s Western MNCs were showing a greater interest in organising an Eastern European division of labour than Comecon-based enterprises themselves.⁶³³ Equally, Comecon-based MNCs operating in the ‘non-socialist abroad,’ typically but not only in the areas of marketing and after-sales services, proliferated.⁶³⁴

The basis for Comecon integration was steadily undermined as competition for Western markets, loans, and investment infiltrated the supposedly cooperative relations between STEs. Each jostled for position over trade and good relations with the ‘non-socialist abroad,’ as manifested for example in the bilateral trade deals struck between the European Community and Hungary, Poland and the USSR.⁶³⁵ Companies from these three STEs in particular began to make unilateral pricing decisions, much to the

629 If the provision of cheap oil encouraged political allegiance its withdrawal was deployed as a sanction: for example, the tap was turned off on Czechoslovakia in 1968, and on Cuba when Castro demurred over the Soviet invasion of Afghanistan.

630 Salgo, 1992, p. 209.

631 Lavigne, 1991, p. 388.

632 Bryson and Melzer, 1991, p. 63; Zon, 1994, p. 41.

633 For example, Volkswagen developed plans for producing pan-CMEA vehicles, to include engines from Karl-Marx-Stadt and chassis from Czechoslovakia.

634 Already in the 1970s some five hundred were operating in the OECD, while in the Third World over two hundred companies had equity invested by European STEs. These, according to Lavigne, were ‘motivated by access to markets (especially for their technology), access to resources [...] and in some cases by the existence of low-cost labour.’ Lavigne, 1991, 173.

635 Van Ham, 1993, p. 142.

discomfort of their East German partners.⁶³⁶ Above all, economic downturn and rising hard-currency interest payments intensified a foreign exchange scarcity that drove Comecon's members to prioritise exports to the West to an ever greater degree. The 1980s saw the CMEA explicitly recommend an orientation to world markets. Transactions came to approximate world prices more closely, and were increasingly denominated in dollars.⁶³⁷ Policymakers, as Charles Maier puts it,

felt that they were locked into a club of poor relations, the [CMEA]. Each participating country was growing impatient with this community of relative backwardness. Each increasingly wanted its partners to pay in convertible currencies that they might spend elsewhere.⁶³⁸

Integration with the world market, as discussed in the previous chapter, was no panacea: it led to what might be termed 'unequal interdependence' with the West, with far-reaching political implications. The fear involved was clearly expressed by an East German politburo member: 'I am in favour of trade with the West, but not dependence.'⁶³⁹ It is the dynamics of their relationship with the West in general and the FRG in particular that came to dominate the horizon of East German policymakers, and to these questions we turn now.

Vodka-Cola ventures⁶⁴⁰

Inexorably, if not without resistance, doors to the world market were opening. Ideas began to change, old certainties crumbled. Dealings with DMEs were re-evaluated to become the main thrust of economic strategy. To illustrate the transformation, compare these two officially-sanctioned pronouncements.⁶⁴¹ In the 1970s a typical text could declare that:

The growing power of socialism is impressing itself ever more directly upon the capitalist world economic system. The progress of the socialist world system is limiting the domination of the monopolies on the world market [...] The imperialist foundations of the international division of labour are being shaken under the impact of socialism. [...] Economic relations between the socialist and imperialist countries are thereby becoming a decisive battlefield of class struggle.

By 1988 the change of tone was unmistakable: 'According to the reproduction theory of socialist political economy, East Germany has an "open" economy. It is connected in the most profound ways into the world economy, and is subject to its general laws.' In the same year a senior functionary was able to pen the following:

636 Hertle, 1996a, p. 66.

637 Lavigne, 1991, p. 302.

638 Maier, 1997, p. 61.

639 Klenke, 2001, p. 33.

640 'Vodka-Cola,' designating East-West trade and cooperation, is from Levinson, 1980.

641 Neubert, 1989, pp. 17–18.

The national economy of the GDR is characterised by one of the highest foreign trade intensities worldwide – more than 40 per cent of its national income is derived from foreign trade. Hence a high degree of stability in foreign trade is imperative. The same conclusion applies to the GDR's economic relations with the FRG.⁶⁴²

East Germany's integration in the world economy was by this stage involving partnerships with Western MNCs, at home and abroad. The 1980s saw East Germany move from tail-light of Eastern European STEs to pole position in this regard, engaging in well over 100 collaborative ventures with West German businesses alone.⁶⁴³ The GDR firms were generally the junior partners (although, they would insist, '[t]he GDR simply will not act as an extended workbench for the FRG; nor will it participate in unprofitable projects. Joint ventures must also be based on the principle of reciprocity.')⁶⁴⁴

The most common form of cooperation involved production under license. Western firms such as Nivea, Blaupunkt and Adidas erected plant or entire factories in the GDR, and would normally receive payment in kind, with the rest of the product allocated to domestic luxury outlets ('Delikat,' 'Exquisit,' and 'Intershop'). Such ventures brought the benefit of ensuring supplies of quality consumer goods that were paid for through the direct exploitation of local workers rather than with precious hard currency. In addition, as Mittag saw it, they enabled the transfer of 'technical know-how from abroad – which could not be appropriated in any other way.'⁶⁴⁵

Equally, GDR firms were keen to expand into 'non-socialist' markets and cooperation with Western MNCs was a useful means to this end. A trickle of collaborative ventures in the 1970s, for instance with Vöest-Alpine in Cameroon, became a stream in the 1980s, including projects with British United Machinery, CCC Hamburg (in Sudan), DEMAG (in Bulgaria), and Mannesmann (in Bulgaria and Greece). Some East German *Kombinate* were able to operate abroad on a very significant scale. SKET, for example, owned, among many other assets, 350 rolling mills and 1,200 cranes in at least forty countries.⁶⁴⁶ The emphasis throughout this period was upon developing the involvement of East German firms in projects abroad. As one senior official wrote, 'economic-technical cooperation between West German companies and East German companies in third markets of the non-socialist-abroad should in the future be intensified and should become a long-term objective.'⁶⁴⁷

By far the most extensive collaboration was with FRG-based firms. Many of these were committed to cooperating with the GDR on 'ostpolitikal' grounds, but before this phenomenon is explored, a brief digression on the support of the West German business community for *Ostpolitik* is in order.

The Berlin blockade and counter-blockade had politicised and diminished East-West trade, but in subsequent decades pressure grew on both sides to re-establish trading links. For its part, Soviet enterprise

642 Schmidt, 1989, p. 124. Post-1989 calculations suggest that the phrase 'one of the highest' and the 40 per cent figure are both exaggerated, but not to such an extent that the basic thrust of the claim is refuted.

643 Nakath, 1994, p. 49; Bauman, 1989, p. 178.

644 Nitz, 1989, p. 303.

645 Mittag, 1991, p. 105.

646 *Kombinate*, 1993, p. 272.

647 BA-SAPMO, Büro Mittag, letter of 10.2.87.

required Western technology and capital goods, and the Kremlin began to explore ideas of economic détente.⁶⁴⁸ For theirs, West German sought raw material imports and expanded exports to 'our natural markets' in Eastern Europe.⁶⁴⁹ They also saw STE markets as a stable 'fallback should the Western world economy for some reason not function or lapse into another 1930s-style crisis'.⁶⁵⁰ They therefore chafed against Adenauer's 'old' *Ostpolitik*, in particular its recourse to trade sanctions as a bargaining tool.⁶⁵¹ In 1952 an 'East Committee' was established within the West German Employers' Federation (BDI). Present at its founding was Otto Wolff von Amerongen, who was to play a key role in encouraging business ties and political rapprochement between Germany and the Soviet bloc. Wolff followed in his father's footsteps as a pioneer of trade relations of German business with Russia. The family firm's motto was 'our job is not to rescue the Fatherland but to do business' – although it, with the young Otto as a partner, was quite prepared to make its fortune from the Fatherland, by selling securities stolen from murdered Jews on the world's stock exchanges in the early 1940s.⁶⁵² Not being inclined to allow morality to interfere with business, Wolff refused to allow his past actions to obstruct his future. Following the Nazis' defeat, his company and professional career flourished, and before long he had become the head of the 'East Committee' – a position that he held for forty-five years.⁶⁵³

Thanks in part to lobbying from business leaders such as Wolff, a new *Ostpolitik* emerged under Willy Brandt's administration in the late 1960s. Representing a 'real-political' recognition of the GDR's durability coupled with the desire to develop an autonomous foreign policy, the policy also furthered West German economic interests in the Soviet Bloc.⁶⁵⁴ Following a huge pipeline deal with the USSR in 1969–70 – the credits for which were arranged by the Bavarian Christian Social Union (CSU) government under Franz-Josef Strauss – FRG-Comecon trade thrived.⁶⁵⁵

In their dealings with the GDR, West German businesses were motivated in part, as a leading CDU member, Walther Leisler-Kiep, put it, by their interests in 'furthering the overall political aspect of economic relations'.⁶⁵⁶ They perceived the 'special' German-German political relationship as working to

648 In 1959, to give an illustration of the sort of thinking involved, Khrushchev gave a speech to British MPs and other dignitaries that included the following memorable appeal: 'We have come together, people of different political attitudes, different religions. But we want to speak here in a common language, the language of advantageous trade.' Lest one think this slip into liberalism was unintended, the Soviet leader, according to the German translation of his speech, added that 'I have not come here to engage in ideological disputes. I represent the business circles of the Soviet Union.' On the next day he trumped this display of 'flexibility' with a toast to the Krupps company, the very symbol of German militarism. Johnson, 2000, pp. 76–8.

649 Spaulding, 1996, p. 141.

650 Berghahn, 1996, p. 27.

651 Seppain, 1992.

652 On Otto Wolff's involvement in profiting from the Holocaust, see Gritschneider and Rügemer, 2001.

653 Spaulding, 1996.

654 'As the comments by successive Foreign Ministers indicate, there was', writes Timothy Garton Ash (1993, p. 246), 'a vague, unquantifiable sense that there should be a larger eastern market there in the future, as there had been in the past.' For a good example of such sentiments, see also Willy Brandt, in Stent, 1983, p. 150. An additional attraction of the new *Ostpolitik* was that it enabled more subtle forms of leverage to be applied in Eastern Europe than the previous confrontational methods had done, an advantage that West German businesses, being keen for foreign clients and partners to forget the aggressive associations of Germany's past, did not underestimate. See von Braunmühl, 1973, p. 160.

655 By the late 1970s a third of West German machine tool exports went to the Soviet Bloc. Following the oil price rises of the 1970s oil and gas supplies were especially important to the FRG. By 1989 the USSR supplied fully 30 per cent of its natural gas.

656 The phrase occurs during Leisler-Kiep's presentation, to a GDR official, of a proposal by Siemens and Deutsche Bank to work alongside East German *Kombinate* on the modernisation of the country's telecommunications network. Nitz, 1995, p. 275.

their advantage. In the specifics, however, the motivation was inevitably, as Kiep went on to say during the same conversation, 'massive self-interest' in sales and collaborative projects. The East German market was not large but was nonetheless, in the words of Krupp's Berthold Beitz, 'of substantial importance to many FRG enterprises, both big corporations and specialised small and medium-sized companies.'⁶⁵⁷ To illuminate the sorts of specific interests motivating both sides in joint ventures, cases from three industries will be briefly discussed, drawing on material from the SED archives.

The automobile industry was synonymous with one *Kombinat*, Ifa. Although a number of Western companies, including Porsche and Citroen, explored cooperation with Ifa, the one that engaged most successfully was Volkswagen. Volkswagen's global strategy was fairly heavily geared to STEs, in particular China, but also the USSR. Following approaches from Mittag and Schalck, Volkswagen arrived in the early 1980s. Inter-German détente was blossoming and, equally significantly, Ifa was in the throes of breaking a joint venture agreement with a Czechoslovak enterprise.⁶⁵⁸ The Western firm's intention, as its president, Hahn, explained to Gerhard Beil, was to shift production from West to East Germany because the former is 'not stable enough' and because of 'the rising costs in FRG industry.' Whatever the significance of the former (with hindsight, ironic) motive, it is certainly true that the low cost of East Germany's qualified labour-power, as well as proximity to major markets, were major attractions. As for the East Germans, cooperation with Volkswagen was valued as a lever for directly raising productivity, a route towards earning hard currency by selling to external markets, and as promising indirect benefits for science and industry in general. According to Peter Przybylski, Mittag initially hoped that an Ifa-Volkswagen joint venture would result.⁶⁵⁹ His colleagues, however, worried about the degree of technical dependence that would result, not to mention the cost in scarce Deutschmarks, blocked the idea. In 1984 a compromise was reached whereby Ifa would build Volkswagen engines under license; a part of these would be supplied to Volkswagen as payment, the rest to be installed in improved Wartburgs.

The second example is the steel industry. In this case, the emphasis for Western partners was not cooperation as much as sales. With world steel overproduction hitting crisis levels in the early 1980s, even marginal markets like the GDR could be vital to a company's survival. As the director of the West German steel giant Salzgitter insisted to Gerhard Beil, 'Salzgitter needs the trade with the socialist countries'.⁶⁶⁰ Similarly, Wilhelm Scheider, the chairperson of Krupps, confided to Beil in the same year that the FRG steel industry was in such a parlous state that 'the consequence, in a "free market economy", would be bankruptcy.' Krupps, he insisted, was desperate for extra orders from East Germany, and suggested that payment for these could be, in part, through GDR firms supplying Krupps projects in third markets. At the time joint projects between Krupps and East German *Kombinate* already existed in a range of countries⁶⁶¹

657 Nitz, 1989, p. 306.

658 Sieber, 1994, p. 78.

659 Przybylski, 1992, p. 189.

660 BA SAPMO, Büro Mittag, letter dated 14.3.81. He added, confidently, that his firm 'will use its influence on the West German government to make sure that no inconveniences will arise.'

661 Yugoslavia, Greece, India, Ethiopia, Burundi and Ghana.

and plans were drawn up to extend collaboration to more.⁶⁶² The East Germans were keen to develop these links. Krupp's links with Lonrho, they hoped, would help to facilitate investments in Africa, while in many other countries, officials observed, it 'possesses very favourable terms, thanks to the political intervention of the FRG and finance from the World Bank'.

Nuclear power, the third example of Vodka-Cola dealing aux allemands, is significant not because any major project resulted but because it foregrounds a range of factors that were not present or only marginal in the previous cases. Once again, the source documents are to Gerhard Beil, in this case from the head of the Ruhr-based firm Gute-Hoffnungshütte, whose name is recorded in the documents as 'Lodz.' Writing on behalf of a consortium of major FRG corporations, he proposed that these take in hand the construction of a nuclear power plant in East Germany. He gave three motives. The 'most important' was that 'the FRG government and industry are seeking to build a counterweight to the anti-nuclear movement,' that was then at its zenith. Secondly, as with steel, market conditions in the West were inclement. Hoffnungshütte, he wrote, had 'gigantic stockpiles of valuable nuclear power equipment which it would like to reduce.' Thirdly, 'East Germany has a clear nuclear power strategy *and no problems with its population*' [italics GD].⁶⁶³ Lodz urged haste, informing Beil that although the centre-left government in Bonn was in favour of the plan – and was 'in a position to influence the banks in order that further loans could, if need be, be arranged' – a future Christian Democrat one might not be.⁶⁶⁴ Finally, he warned that the USA might attempt to thwart an FRG-GDR nuclear venture as a violation of CoCom restrictions, and urged Beil to the utmost secrecy.

The clinking of Vodka-Cola glasses

There is no question that West Germany's strategy of détente helped to shape attitudes in Eastern Europe, not least in Moscow. Philip Zelikow and Condoleezza Rice have put it like this:

Years of West German cooperation clearly softened Soviet attitudes about the FRG and built up a reservoir of trust, at least among some Soviet officials, toward both the Federal Republic and the Germans as a new nation that had genuinely broken with its past. These benefits from the Ostpolitik with Moscow helped slightly more relaxed attitudes about Germany to take root when Gorbachev turned close attention to German issues in 1987.⁶⁶⁵

In contrast, the same approach towards East Germany brought about very different effects. Here, it helped to 'sustain a communist government that grew more hard-line in the late 1980s'. Bonn's efforts 'to reassure the East Germans,' they continue, 'produced no noticeable movement in the GDR leading toward eventual

662 Tunisia, Nigeria, Dubai, Iran, Morocco, Libya and Sri Lanka.

663 It should be remembered that Lodz was able to write so candidly due to the assumption that secrecy was guaranteed.

664 Lodz to Beil, 2.4.82, in BA SAPMO, Büro Mittag.

665 Zelikow and Rice, 1995, p. 61.

unity. Instead it tended to reinforce the conventional wisdom that territorial unification was out of the question.'

On the surface this conclusion is a fair one. The GDR government did remain hard line, and gave no indication of a reconsideration of its stance towards unification. However, if one digs a little deeper, into the backroom behaviour and private opinions of SED leaders and especially of their underlings, a rather different picture emerges. Typically for masters of relatively backward economies, a more or less resentful admiration for aspects of Western capitalism prevailed amongst East German officials and industrialists. Their obsession with levels of production and consumption in the West is well known. Particular esteem was extended to the economic and technical achievements of the 'class enemy,' which were held up as the standard, to be imitated, adapted and – hopefully – surpassed.⁶⁶⁶

Increased trade brought new possibilities for functionaries, officers of the security services, and even SED leaders to engage in the practical recognition of the superiority of Western and Japanese consumer goods by voting with their wallets. One of KoKo's prime tasks each year was to provide DM 6–8 million simply for the politburo's hard-currency consumption requests.⁶⁶⁷ Some of the receipts for items ordered from the West by politburo members are extant, and give an impression of a robust desire to keep up with the (Western) neighbours in some predictable areas, such as electronic goods, but also in unexpected and exotic categories – such as orthopaedic mattresses, pampas grass and ultrasonic vole killers.⁶⁶⁸ One wonders whether Mittag, whose artificial leg was made in Japan and whose daughters' ten or more televisions were all of 'capitalist' provenance, or Honecker, as he sat in his Citroen smoking HB (his favourite cigarettes), or Egon Krenz, as he supervised the grey-market import of western cars for favoured functionaries, or the Stasi officers who sent their minions over to West Berlin to purchase their wine, cigarettes and videos, ever reflected wryly upon their penchant for 'capitalist' products.⁶⁶⁹ Certainly, Schalck's responsibility for their provision did his reputation amongst the SED elite no disservice.

Trade and détente gave rise to a proliferation of collaborative ventures and associated political negotiations that helped to modify perceptions of the 'enemy'. The CSCE process in particular established arenas in which members and representatives of the respective ruling classes discussed and prepared cooperative agreements and projects. At meetings connected with the CSCE process scientists, economists, diplomats, and officers exchanged experiences, discussed possible developments and struck deals. 'The participants,' as one of their number recalls, 'sought to compromise and reach agreement.'⁶⁷⁰ In the meetings of the Vienna Council, for example, attended by representatives from all the major West German and many other Western businesses, a friendly and open atmosphere prevailed, tending to undermine

666 One politburo member, for example, drew his colleagues' attention to the use of data processing in the planning apparatus of the West German army. Its supplies arm now had the capacity, he stated with not a little envy, to coordinate the distribution and activity of 'up to a million different items, provisions, building squads [Baugruppen], component parts, and many other tasks in the area of material-technical supply.' From a document reproduced in Naumann and Trümpler, 1990, p. 126.

667 Christ and Neubauer, 1991, p. 51.

668 Communication to the author by Uwe Bastian.

669 Janson, 1991, p. 238; Klemm, 1991, p. 73.

670 Nitz, 1995, p. 79.

Cold War preconceptions.⁶⁷¹ Even the notoriously unsociable Günter Mittag recalls that '[a]n atmosphere of mutual trust developed, since both sides were no longer engaged simply in confrontation but more and more with partnership and peaceful cooperation.' Elsewhere in his memoirs we learn of how '[t]he countless meetings with West German politicians and with important businessmen [...] shaped, both consciously and unconsciously, my thinking.'⁶⁷² Conversely, Mittag was seen 'by many top managers in the West as absolutely one of their own.'⁶⁷³

One of the major sites of bridge-building between East and West German elites in the 1980s was a series of discussions between representatives from the SED and SPD that culminated in a 'Joint Paper' in 1987. In interviews, two of the SED's representatives – Rolf Richter and Helmut Meier – have emphasised, in their words, the 'human dimension' of the talks. 'We took one another seriously,' during the negotiations, Richter described, and in the evenings both sides would 'get to know one another, drink beer together'. Before long, Meier added, 'we saw our SPD partners as colleagues, as friends'. The negotiations were perceived with some suspicion within sections of the SED but others, including apparently Honecker himself, accorded it a certain prestige. Meier recalled, with a chuckle, that after the publication of the Joint Paper, the conservative 'Adenauer-Stiftung sent somewhat hurt letters that said, in effect, "Why discuss with the SPD? They're not in power! Why not discuss with *us*?"'

As this last example suggests, rapprochement between the two elites was not a one way process. Jürgen Nitz, who knew both sides intimately, remarked that he had always heard 'exceptionally positive opinions [...] towards the East German leaders [...] above all from the top people in the West German business community,' as well as from CDU leaders such as Leisler-Kiep.⁶⁷⁴ Schalck in particular was 'a favourite conversation partner amongst members of the West German political establishment of all stripes,' from the CSU's Theo Waigel to Wolfgang Schäuble through to Count Lambsdorff of the 'Free Democrats' (FDP).⁶⁷⁵ Business leaders and politicians who visited East Germany were positively fawned upon. Beitz, for example, was among the GDR leaders' favourite friends and admirers. In a series of letters to Mittag in the autumn of 1988 he described his feelings upon visiting East Germany: of being 'overwhelmed by the beautiful presents' he had received from the East German state, of the 'great pleasure' of going hunting with SED leaders, and of his desire 'to have a GDR artist paint my portrait'.⁶⁷⁶ Exemplifying the elaborate rituals of Vodka-Cola clinking, West German state officials even went to the trouble to write to Mittag to suggest that, during Beitz's forthcoming visit to his parents' hometown in the GDR, functionaries there should arrange for the local priest to present him with 'a little souvenir (such as an old hymn book) for his mother'.⁶⁷⁷

671 Nitz, 1995, pp. 80–2.

672 Mittag, 1991, pp. 96, 104. Mittag is not always a reliable witness, but these comments ring at least partly true.

673 Nitz, 1995, p. 166.

674 Nitz, 1995, p. 175.

675 Christ and Neubauer, 1991, p. 48.

676 The letters in this and the following paragraphs are archived in BA-SAPMO, Büro Mittag.

677 Letter from the FRG's 'Ständige Vertretung,' 13.8.82, in BA-SAPMO, Büro Mittag.

Vodka-Cola relationships did not just involve little tokens of appreciation; the nexus of economics and politics could easily go beyond the realms of legitimate business and pleasure. One frequent visitor was Otto Wolff von Amerongen. By now one of West Germany's most respected business leaders, with positions on the board of directors of dozens of corporations and a member of both the Trilateral Commission and the Bilderberg Group,⁶⁷⁸ Amerongen, as his letters to GDR functionaries attest, loved its Prussian aspect (he reserved special praise for the pageantry when he received an honorary doctorate at Jena University). And yet his activities in the GDR were not always so elevated. In the autumn of 1987, for example, one letter to 'My very worthy dear Mr. Mittag' begins with a friendly reminder: 'You once told me that, should I ever deem it appropriate, I could contact you outside of our official roles, if something arose pertaining to affairs of my own company.' He had heard, the letter continues, that an East German steel-making enterprise was inviting tenders for a major investment project. His own firm, he declared, would be interested in receiving the contract. Mittag ensured that indeed it did.

In the game of deploying political position to further private ends Amerongen was an amateur next to Strauss. Although an arch-conservative, Strauss was viewed kindly by SED leaders due to his espousal of intensified relationships and his organisation of the 1983–4 loans. His relationship with East Berlin was also cemented by information exchange. For although Strauss knew that Schalck was a Stasi colonel, he willingly divulged a good deal of the classified information that he received from Bonn ministries, the CIA and the BND – including the sites of Cruise and Pershing missiles.⁶⁷⁹ His official contacts with Schalck have been discussed above, but these were accompanied by an unofficial sub-plot that involved one Joseph März, a friend of Strauss and fellow CSU member. März was a Bavarian cattle dealer whose meat wholesaling business dealt, via KoKo, with East Germany. His chief rival, a cattle dealer with SPD connections, had generally been preferred by the GDR. März, doubtless scenting possibilities for reinvigorating his troubled business, introduced Schalck to Strauss. The three became friends and März's business was promptly rescued thanks to increased purchases from the GDR. It was not always plain sailing, however. In the mid-1980s März's exports to the GDR slumped and ruin threatened, but once again, Strauss intervened. He sent a note to Schalck that insisted that he ensure a permanent increase in East German purchases from März, or else risk his friendship (and, given the centrality of the Schalck-Strauss axis, damage inter-German relations).⁶⁸⁰ This may be the most notorious case of Vodka-Cola sleaze and corruption, but questions have been raised over several other deals, particularly those involving decisions by Schalck and Mittag, at Strauss's instigation, to ensure that major contracts went to companies favoured by Strauss.⁶⁸¹ For example, when East Germany's airline, Interflug, was contemplating the leasing of two Airbuses, Strauss – who sat upon the Airbus board of directors – allegedly used his political influence to clear aside the CoCom hurdles.⁶⁸² On another occasion Strauss pressured his East German

678 These two groups are said to include the two or three hundred most influential people in Europe and North America.

679 Sélitrenny and Weichert, 1991; E. Koch 1992, p. 144. Such activities earned Strauss the posthumous appellation of 'the GDR's most important spy.' Przybylski, 1992, p. 282.

680 E. Koch, 1992, p. 150.

681 Seiffert and Treutwein, 1991, pp. 348–9; E. Koch, 1992, p. 145.

682 Nakath, 1994, p. 50. The Airbus case was an exceptional decision for CoCom, although did come at a time in which its rules were becoming somewhat more relaxed. See Mastanduno, 1992, p. 306.

friends to ensure that the West German truck manufacturer M.A.N. get a lucrative contract in Cottbus.⁶⁸³ Yet another example occurred when Schalck and Mittag, at the instigation of Strauss, made sure that an important contract went to a company run by a company favoured by Strauss, BMD, even though its tender was dearer than that of rival bids.⁶⁸⁴ A cursory reading of some of the secondary literature unearths these examples; doubtless they are not the only ones.

In the process of forging 'Vodka-Cola' relationships both sides often discovered they shared a surprising degree of common ideological ground. Schalck, for example, asserted that he shared most of Strauss's political views.⁶⁸⁵ The feeling was mutual: the *Deutschnational* Strauss and his wife greatly admired the Berlin regime's Prussian authoritarianism, especially its reactionary family policy.⁶⁸⁶ East Germany diligently repressed three of the evils that Strauss most abhorred: 'hashish, pornography, and [...] long hair'.⁶⁸⁷ Strauss, a notorious anti-Communist, began to earn the admiration of Honecker and Mittag, and discovered his *Weltanschauung* to be far closer to theirs than to East Germany's 'long haired' oppositionists. He even went so far as to telephone Honecker to vent his contempt for the 'crazy' East German Stephan Krawczyk and his fellow dissident 'dreamers'.⁶⁸⁸ East German journalists who continued the age-old tradition of attacking Strauss as the epitome of revanchist imperialism (he was, after all, an admirer of Pinochet and of Apartheid South Africa), and even those who merely designated him an anti-Communist, were called to order.⁶⁸⁹ When Strauss died, Mittag claims to have been struck with grief, and describes the Cold Warrior in his memoirs, without a hint of irony, as a lover of peace.⁶⁹⁰

In his perception of oppositionists as at best irrelevant and usually irritating, Strauss was but voicing in magnified form what was a broad current of thinking within the West German ruling class, especially its conservative and liberal wings. Lest confusion arise, this was not simply a reflection of the long-established practice, common to both sides in the Cold War, of denouncing, in the name of 'stability,' those who engaged in change 'from below'.⁶⁹¹ This practice was by now well entrenched, but did not demand in its protocol anything more than words of neutrality and aloofness. An example that can stand for many is this comment by Wolff who, following the imposition of martial law in Poland in 1981, 'emphasised' to a GDR official 'that the West German business community, due to its interests [!], would practice restraint and not intervene in the internal affairs of the People's Republic of Poland'.⁶⁹² By contrast, Strauss and many others actively denounced opposition movements in the East. Joseph März, for example, expressed his unconditional sympathy with the East German authorities for their refusal of entry visas to

683 E. Koch, 1992, p. 145.

684 Seiffert and Treutwein, 1991, p. 348; E. Koch, 1992, p. 145.

685 *Wochenpost*, 4.8.1994.

686 *Wochenpost*, 4.8.1994.

687 Strauss, in Engelmann, 1983, p. 191.

688 In Sélitrenny and Weichert, 1991, p. 138.

689 Horst Grunert, interviewed in Zimmermann and Schütt, 1992, p. 76.

690 Mittag, 1991, p. 86.

691 As discussed in previous chapters, critical moments in the development of this norm were Stalin's reaction to the Greek revolt in 1944, and that of the British and Americans to the GDR uprising of 1953. The norm was transformed into a 'regime' during détente, through bilateral treaties and the CSCE framework.

692 BA SAPMO, Büro Mittag, volr. SED 42156, 25.1.1982.

‘Greens and other politicians from the left scene,’ and hoped that East German dissidents would not emigrate, for ‘[w]e already have enough of those Bahros, Biermanns, Krawczyks and Kliers in West Germany’.⁶⁹³ An FDP leader, Count Lambsdorff, made a point of declaring his lack of sympathy for Krawczyk in particular and even encouraged East German Church leaders to give oppositionists ‘a good scolding’.⁶⁹⁴ On a similar note, a leading CDU politician, Lothar Späth – at the time the likeliest candidate to take over from Kohl as party leader – sympathised with the official East German position on its worsening relations with the churches, and divulged to Schalck his disdain for East German radical ‘clerics [who] pursue the interests of oppositional forces which otherwise have little to do with the church.’⁶⁹⁵

In short, trade and détente had contributed to a growing mutual regard between the ruling classes of both Germanies. Amicable personal contacts were flourishing. ‘Totalitarian dictators’ and ‘revanchist imperialists’ were reinterpreting one another as valued partners at the negotiating tables of business and politics. Ideological differences became muted and, where necessary, past records forgiven – for example, Strauss’s anti-communism or Beitz’s record as a Nazi administrator of occupied Poland.⁶⁹⁶ Growing interdependence was effecting subtle shifts upon mind-sets of at least some politicians and functionaries on both sides, softening attitudes and building reservoirs of trust, even friendship. In this light it seems that the increasingly positive attitude of the FRG elite to Honecker’s regime was not the result of ‘deception’ by wily GDR ideologues, as Robert Conquest has alleged.⁶⁹⁷ Rather, it was largely an outcome of the overarching détente framework of mutual recognition, economic interrelations and the pursuit of stability, and was greased by the pecuniary gains and personal experiences involved in cross-border business and negotiations.

Deutschmark painkillers

On the surface, closer relations with the FRG enabled the SED leadership to score significant media-political successes. The pinnacle, in 1987, was a state visit by Honecker to the FRG, where he received a red carpet welcome in Bonn before being ‘wined and dined in Villa Hügel, the ancestral mansion of the Krupp family, and feted in Munich by Franz-Josef Strauss.’⁶⁹⁸ West German ministers and other politicians, including Helmut Kohl (once) would visit East Berlin, accompanied by smiling photo opportunities with GDR leaders. However, these triumphs could not conceal the fact that the ‘special relationship’ to which the SED leader was now committed – despite his earlier vehement denunciations of Ulbricht’s attempt at the same – was a rather one-sided affair. Escaping the worst effects of economic decline in the 1980s depended upon intensifying connections to DMEs, above all West Germany. Once entered, the currents

693 E. Koch, 1992, p. 154.

694 Schroeder, 1998, p. 312; Neubert, 1998, p. 662.

695 In Nakath, 1994, p. 52.

696 Windsor, 1971, p. 52.

697 Conquest, 1995.

698 Zelikow and Rice, 1995, pp. 61–2. The visit was also a victory over Gorbachev. The Russians had succeeded in preventing the visit at its originally scheduled date in 1984, and Gorbachev maintained this position in 1987.

pulling towards closer relations with the West proved difficult to control, let alone reverse. Economic and cultural links with the FRG were, as Günter Minnerup has described, 'double-edged': to the extent that they 'alleviate the difficulties of the SED leadership they also, like painkilling tablets, create a dependence on the beneficial drug.'⁶⁹⁹ These were, moreover, painkillers with in-built side effects, as it were, in the form of political strings attached to transfers and loans. The 'Strauss loans,' for example, were informally exchanged for an easing of conditions for West-East travel that enabled greater numbers of East Germans to legally emigrate.

East Germany's enhanced dependence upon West German markets, credits and transfers was one of several factors that underlay the improved relations (or 'mini-détente') between the two Germanies that developed even as relations between the two superpowers cooled in the early 1980s.⁷⁰⁰ Manifestations of mini-détente included new East-West telephone links, an agreement over the GDR-owned commuter railway in West Berlin, and a deal on cultural, sporting and scientific links. Inter-German détente became institutionalised, with semi-annual meetings of both states' economics chiefs. Although relations did re-freeze, in 1986, they quickly thawed again, as manifested in a prisoner exchange, town twinnings, student exchanges and a further easing of restrictions on private Deutschmark transfers to the East.

In addition to the loans of 1983–4, Bonn provided what was in effect a permanent credit facility, the 'Swing,' which permitted East Germany to quickly fill sudden shortages while deferring payment. It provided a steady flow of payments to East Berlin for such things as improved rail links and motorways, and, notoriously, for GDR emigrants. With prices per head averaging around DM 70,000 this trade brought in billions of Deutschmarks to the GDR (as well as tidy profits for the West German churches and companies, such as Volkswagen, that organised it).⁷⁰¹ All told, direct transfers represented a huge financial infusion. Together with private donations – which amounted to around DM 1.5 billion per year – the FRG was feeding DM 5 billion per year into the GDR, a figure which, assuming an exchange rate of 4.4 Marks to 1 Deutschmark, represented fully ten per cent of national income.⁷⁰²

Slowly but surely, the regime's control over 'its' economy was eroded by this Deutschmark inflow. DMs held, in cash, in the private sector rose from 0.3 million in 1974 to 3.6 in 1988, and circulated in effect as a parallel financial system.⁷⁰³ In an attempt to control and profit from the Deutschmark economy, 'Intershops,' that supplied Deutschmark owners with western goods, were established. Nevertheless, the inflow also fed the 'grey' and 'black' economies, which grew to between ten and fifty per cent of the official economy, depending on which estimate one believes.⁷⁰⁴ In the 1980s enterprises began to demand payment

699 Minnerup, 1984, p. 8.

700 Other contributing factors to the 'mini-détente' included a shared fear by East Berlin and Bonn that Germany might become a central 'theatre' for nuclear exchanges between American and Soviet forces, as well as a greater foreign policy assertiveness on the part of the West Germans, exemplified in disputes with Washington over the neutron bomb in 1977, over CoCom evasions, and over EC companies' participation in the construction of Soviet oil pipelines. The Strauss loans should be seen in this context too; they were, as Clemens suggests (1989, p. 290), a clear signal that the new *conservative* government, despite the New Cold War, was thoroughly prepared to cooperate with the GDR. See also Kaiser, 1991; Wolf, 1998.

701 *Freikauf Gewinnler*, pp. 9, 112, 133 and *passim*. See also E. Koch, 1992, p. 142.

702 Lisiecki, 1990, p. 513.

703 Von Rüden, 1991, p. 97.

704 Bryson, 1984, p. 83.

in Deutschmarks for certain transactions, obliging one another to amass large funds of Deutschmarks in 'black accounts'.⁷⁰⁵ The DM was rapidly becoming a de facto second currency.

Intershops, the easing of restrictions on the reception of Western television, the sanctioning of Deutschmark ownership and increased numbers of visits from Westerners all tended to effect changes in cultural perceptions with directly political implications. Gifts from relatives, as Kopstein observes, encouraged the socialist dictum 'to each according to his work' to be revised in the popular mind to 'to each according to where his aunt lives'.⁷⁰⁶ Increased trade and cultural contacts, telephone links, visits from Westerners, and the influence of West German television, all heightened the immediacy of East-West comparison. The quality of goods displayed by aunts and Intershops heightened Easterners' perception of their second-class status. As described above, the lifestyle choices of East German functionaries came to resemble those of the public at large to the 'aunt in the West'; Bonn, meanwhile, was becoming a sort of (rich and suspicious) 'aunt' to the official GDR economy. A tension clearly existed, in the long-term at least, between the 'pull of the West' and the SED's legitimacy. Lutz Niethammer has encapsulated the contradiction in his remark that the ruling system, 'attached to the drip of the West, completely lost its legitimating ability to provide hope, and oriented the masses instead towards the source from which the rulers themselves sought aid: the West.'⁷⁰⁷

'Between a rock and a hard place'

It is difficult not to see the irony in the fact that Honecker was pursuing precisely the policies of high borrowing and an eager *Westpolitik* that he had so sharply criticised in his predecessor. Soviet leaders, however, were not amused. A growing influence of the FRG in Eastern Europe was, after all, the explicit aim of Bonn's new *Ostpolitik*. Its basic guideline was to accept the Cold War *status quo* in order to more effectively project power, notably through opening Eastern Europe to Western political influence and economic connections, and in the process to encourage intra-Bloc tensions.⁷⁰⁸ Of course, this equation could work both ways: by normalising relations with Bonn, the USSR hoped to exacerbate tensions within the Western camp, and East German functionaries were committed to playing their part too. As Schalck explained in his Ph.D., the overarching purpose of the SED's economic connections to the West,

to damage the enemy [i.e. the FRG, the West] by using all the methods and possibilities at our disposal, as well as their own methods and moral categories; and to fully exploit the enemy's economic potential for the all-round strengthening of the GDR. In the pursuance of this class duty we are met half-way by the enemy's

705 Welzk and Wilde, 1993, p. 138.

706 Kopstein, 1997, p. 188.

707 Niethammer, 1994, p. 112.

708 As a chief architect of the policy, Egon Bahr, explained in a letter to Kissinger, 'A systematic but discriminating expansion of East-West economic relations will exacerbate contradictions amongst Communist countries and contribute to further modifications of the system.' In Niedhart, 1998, p. 188.

intention to intensify economic links with the GDR for the purpose of creating relations of dependence on West Germany and West Berlin.⁷⁰⁹

In the early 1980s, however, the balance of economic and political force was hardly conducive to 'damaging the enemy' by these means. The Kremlin's approach, particularly against the backdrop of the New Cold War, was to discourage Eastern European relations with the West and to push for greater Comecon integration as a means of reducing vulnerability to Western leverage.⁷¹⁰ Brezhnev and other officials repeatedly counselled GDR leaders of the dangers of dependence upon the FRG, voicing their disapproval of the mini-détente and especially the Strauss loans which, Prime Minister Ryzhkov argued, represented a bid by West Germany 'to buy up the GDR's obligations towards [foreign] countries in order to bind the GDR to the FRG.'⁷¹¹ *Neues Deutschland* replied with an unusually stern rebuke to its ally, accusing the Soviets of advocating a disastrous course of 'economic seclusion.' A further source of tension between Moscow and East Berlin lay in strategic policy, with open disagreements over Soviet missile stationing in the GDR. When Soviet SS20 missiles were stationed in the country, *Neues Deutschland* opined that the deployments 'have caused no celebration in our country' and printed a letter from a Lutheran priest expressing horror at the reflex of 'answering evil with evil'.⁷¹² Nuclear wars, Honecker dared to suggest, could be 'neither fought nor won.'⁷¹³ Ironically, given the cool tone emanating from Moscow, thinking in the East German establishment at this time anticipated Gorbachevian themes – the Institute of International Relations, for example, proposed a partial demilitarisation of international relations coupled with greater cooperation with non-socialist countries to address global energy and environmental problems.⁷¹⁴

If these details may be put into context, they are signs of two wider processes. The first is that, although friction was not new to the relationship between Moscow and East Berlin, the inter-German détente highlighted a loss of influence by the senior partner. Secondly, this axis of tension belonged to a general trend. The USSR was no longer exporting cheap oil to its allies; conversely, these were increasingly dependent on Western imports of high tech capital goods and obliged to pay for these, and for loans, with hard-currency earning exports. The situation of the more West-oriented of the STEs could be described as one of 'double dependency,' which involved a growing contradiction between political allegiance to the USSR and economic ties with the West.⁷¹⁵ Moscow's 'usual arm-twisting,' as *The Economist* put it, is no longer working, 'because too many East European leaders are coming to realize that economic reality requires them to keep up their links with the West.'⁷¹⁶

In East Germany this tension was felt acutely. Intensified relations with DMEs acted as a spur to accumulation and a vital source of technology and markets. Equally, they threatened to undermine the

709 Przybylski, 1992, p. 259. This excerpt, in particular the reference to 'their own methods and moral categories,' sums up KoKo's guiding philosophy.

710 Hanson, 1986.

711 In 1986. Adomeit, 1998, p. 237.

712 Smyser, 1999, p. 300.

713 Sieber, 1994, p. 79.

714 Wendt and Friedheim, 1995, p.717.

715 Bunce, 1985, p. 42.

716 *The Economist*, 18.8.84.

‘national economic independence’ that was not only the structuring principle of STEs but also the basis of the GDR’s existence as a distinct polity. As Günter Mittag expresses it in his memoirs, the GDR economy was caught ‘between a rock and a hard place: between CMEA and the West, between raw materials shortages and CoCom.’⁷¹⁷ This basic tension was reflected within the SED leadership. In the ‘West wing,’ greater emphasis was placed upon cooperation with Western firms and states, and on furthergoing détente with the FRG.⁷¹⁸ It is generally thought to include the politburo members Mittag, Beil, Sindermann, Schürer, and Herbert Häber, as well as Schalck.⁷¹⁹ Their strategic orientation can be fairly summarised as the ‘strengthening of economic relations with the FRG in order to achieve a higher degree of independence for the GDR, also within the Eastern bloc.’⁷²⁰ It should not be thought, however, that they ignored the dangers of closer engagement with the West. In the archives of the old regime (notably documents archived in the Büro Mittag) one finds repeated warnings along these lines: that Bonn’s support for economic cooperation ‘is a plank in the FRG’s strategy of achieving “reunification”’ (Mittag); or that the West Germans were striving to ‘upgrade’ Berlin to the ‘potential capital’ of all Germans (Schalck).

Such fears were taken much more seriously by those who occupied the ‘East wing.’ They too perceived the need to pursue economic integration, but argued that this should occur above all within Comecon.⁷²¹ The emphasis for them was on ‘communist internationalism,’ on shoring up the dissolving networks of allegiance within Comecon and the Warsaw Pact. Closer relations with DMEs would bring dependence, and even the ability of DMEs to ‘turn the tap off.’ They feared that West German business would turn the GDR, in Krolkowski’s phrase, into an ‘object of exploitation’.⁷²² In particular they opposed the contacts with the FRG that were being developed by officials of the Academy of Social Sciences, such as the SED-SPD negotiations discussed above. A good sense of the ideas that circulated within this wing may be gleaned from a quote from Erich Mielke, in which he informs Willi Stoph (in 1980), that

throughout the economic departments of the central committee, comrades are seething over Honecker and Mittag’s West-strategy. [They] clearly perceive the danger of the GDR’s dependence on capitalist states, enterprises, and banks, and believe the only secure perspective lies in the utmost domestic performance and in cooperation with the USSR and the other socialist brotherlands.⁷²³

Alongside Krolkowski, Mielke and Stoph, these sentiments were shared above all by politburo members Kurt Hager, Joachim Herrmann, Alfred Neumann and Heinz Hoffmann. As for Honecker himself, although he was committed to furthering Comecon integration and advocated a stepping up of joint ventures with Soviet enterprise, in the East wing he was perceived, with considerable justice, as a paid-up Westerniser.⁷²⁴ He was, for example, prepared, in defiance of the Kremlin, to visit Bonn; and was also, as he

717 Mittag, 1991, p. 154.

718 The metaphor of a house with ‘wings’ is adopted to allow for the fact that considerable movement of positions was possible, as well as sharp disagreements over other issues amongst occupants of the same wing.

719 Nitz, 1995, p. 60.

720 Mittag, as reported by Nitz, 1995, p. 60.

721 As Mittag saw it (1991, p. 40), they suffered from ‘the illusion that the GDR could get its international know-how from Comecon.’

722 Przybylski, 1992, p. 355.

723 Przybylski, 1992, p. 222.

724 Küchenmeister, 1993.

put it to Kohl during that visit, determined to see an intensification of trade and cooperation with the FRG (a development which, he added, promised 'the transfer of high technology' to the GDR).⁷²⁵ Although Honecker was not the most 'western-oriented' of SED leaders, his position was clearly within the West wing. Members of the 'East wing' even informed the Kremlin of their suspicions that he and Mittag were engaged, conspiringly, in a 'German-German flirtation' with Bonn.⁷²⁶ Stoph and Krolkowski went so far as to explore the thoughts of Soviet officials on the question of whether Honecker should be deposed.⁷²⁷

In the late 1980s these tensions within the SED leadership were exacerbated by a renewed set of economic difficulties that demanded urgent action. Some of these problems involved the exacerbation of pre-existing trends. Thus, the high levels of interest payments of the early 1980s had reduced funds available for investment, leading to a deterioration of industrial and public infrastructure, including transport and health. The age structure of industrial equipment continued in its secular decline. By 1988, 58 per cent of industrial infrastructure was 'worn out,' and an astonishing 17 per cent of all employees in manufacturing and energy were occupied in repairs departments.⁷²⁸ East German firms continued to lose world market share in manufactures, while compensation for these losses was sought in increased exports of raw and semi-processed materials, notably oil and its derivatives, representing a 'reprimitivisation' of GDR exports.⁷²⁹ However, even this strategy suffered in the late 1980s, when lower supplies of Soviet oil closed the option of reselling it to DMEs. This alone was responsible for around half of a dramatic fall in exports to the EU, from ca. DM 4 billion in 1985 to ca. DM 3 billion in 1987 and 1988.⁷³⁰

In 1986–8 growth rates declined abruptly, especially in the manufacturing and construction sectors, in large measure as a result of lower export earnings, aggravated by a severe winter. Up to one thousand investment projects fell behind schedule, generating bottlenecks throughout the economy as shortfalls in one productive unit ricocheted up and downstream. A growing 'monetary overhang,' the deteriorating balance of payments and debt figures and a spiralling budget deficit combined to cause a sharp fall in the Mark's trade exchange value.⁷³¹ The cost of imports thus spiralled, further aggravating the problems referred to above as 'import strangulation' and enterprise-level import substitution.

With decreasing revenues but robust demand for funds – from workers for improved living standards, from managers for investment and from international banks for debt servicing – SED leaders looked to areas in which further spending cuts could be made. In 1988, Schürer proposed that the microelectronics industry and the security forces were suitable candidates for sacrifice. The latter had grown considerably

725 Transcript reproduced in Modrow, 1994, p. 257.

726 Nakath and Stephan, 1995, p. 22.

727 Hertle, 1996a, p. 125.

728 Bryson and Melzer, 1991, p. 85; Kopstein, 1997, p. 3. The antiquated and dilapidated nature of parts of East German industry was brought home to me on an (unauthorised) visit to a coal briquette factory in Bittersfeld. My diary records that the factory consisted of 'old wooden buildings,' with 'grass growing on roofs ... some machinery dated 1912.'

729 Welzk and Wilde, 1993; Winiecki, 1989, p. 372.

730 Schumacher, 1990, p. 585.

731 The Mark to Deutschmark trade exchange rate slipped from 1.7 in 1970 to 2.6 in 1985 before plunging to 4 in 1987 and 4.4 in 1988. From Hofmann and Stingl, 1990, p. 64, and Kusch *et al.*, 1991, p. 45.

since the 1970s and now consumed some ten per cent of national income.⁷³² A further possibility, he suggested, was to cut consumer goods subsidies. This would offer an inflationary solution to the burgeoning monetary overhang, and could lower the pressure on the budget deficit and on the taxation of business. However, powerful constituencies backed the *status quo* in each of these areas. Cutting subsidies was easier said than done, given that average personal purchasing power had declined to only 30 per cent of the West German level (or only 7 per cent if the trade exchange rate is taken).⁷³³ Thanks largely to opposition from Honecker and Mittag, Schürer's suggestions were largely rejected.⁷³⁴ Nonetheless, substantial cuts in the budget for consumer subsidies and, of two billion Marks, for the security services were adopted by the politburo later in 1988. Significantly, even these relatively cautious measures led, 'for the first time in the Honecker era,' to 'open resistance' from ministers, seven of whom refused to accept the politburo decision.⁷³⁵

A second field of policy debate concerned geo-economic strategy. With the balance of trade, particularly with the FRG, declining precipitously from 1985 new policies were demanded. Sections of the 'West wing' began to push for the further development of direct cooperation with Western businesses and with Bonn. General directors, for example, were instructed by Beil to 'prepare, and, if possible, conclude cooperation agreements with western firms'.⁷³⁶ Many second-level managers and technicians in companies, Helmut Meier recalls from his workplace visits, 'believed in and spoke for much furthergoing cooperation with Western business.'⁷³⁷ Sympathetic consideration was even given to plans that had been floated by Bavarian business leaders and politicians for the establishment of 'special economic zones' in Thuringia and Saxony. All such proposals were, however, fraught with difficulties. Some general directors felt that the leadership were unsympathetic, that they feared their desire for greater autonomy in contacts with western business.⁷³⁸ The Bavarian proposal foundered on what one official described as the 'sheer terror' in Mittag's department that a section of the economy might 'slip out of the Centre's control'.⁷³⁹ Other comparable suggestions, Nitz reports, were objected to on the basis of a kindred terror, namely that 'it was more doubtful than ever whether the GDR economy would be able to cope with the new dimension of competition'.⁷⁴⁰ In interview, Helmut Meier confirmed this assessment. 'In principle we recognised that we needed the world market, hard currency, opening up and cooperation,' he recalls, 'but we also knew that such a course would lead to losses.'

Western-oriented sections of the *nomenklatura* were attracted to closer engagement with the West rather as moths to a flame, and, albeit amongst a narrower group, this also applies to the question of establishing a confederative relationship with the FRG. It should be emphasised that no major (let alone

732 Przybylski, 1992, 208.

733 *Der Spiegel*, 17.6.96.

734 Roesler, 1993a, p. 569.

735 Hertle, 1996a, p. 72.

736 Falkner, 1994, p. 27.

737 Interview with the author.

738 Hans Lessing, in Villain, 1990, p. 86.

739 Nitz, 1995, p. 137.

740 Nitz, 1995, p. 142.

publicly aired) debate on this question occurred; even SED reformers who were sympathetic to democracy and market reform believed in the possibility of *overtaking* the FRG on both economic and political fronts.⁷⁴¹ Nevertheless, in private discussions amongst quite significant numbers of functionaries the theme did return.⁷⁴² Aside from the general implications of closer business cooperation with the FRG, the logic behind these discussions was a simple one: apart from Bonn, as Schürer put it, the GDR would 'be unable to find anyone else to take twenty billion dollars of debts off our hands'.⁷⁴³ Already in 1985 it would appear that Schalck was mooting the idea of confederation to his western friends – and he was certainly regarded by those in the know as being pro-confederation, as was Schürer, albeit with greater reservation.⁷⁴⁴ At around the same time, Mittag claims to have discussed the possibility with Beil, and even Egon Krenz, who was widely regarded as Honecker's likely successor, apparently gave some thought to confederative scenarios.⁷⁴⁵ In 1987, Herbert Häber, a senior SED member and FRG expert, presented a paper to the politburo which argued that the GDR would have no chance of survival if Bonn were to cut transfers, that the only chance of economic rationalisation lay through integration with Western business, and for that to succeed, major political concessions with respect to the border regime would be necessary.⁷⁴⁶ Ideas of political concessions to Bonn, even of confederation were being considered as plausible long-term possibilities by many second-row functionaries and discussions of this sort were speculative, and the politburo's response to Häber's paper was dismissive. Nevertheless, that they occurred at all testifies to a growing awareness that urgent problems may require desperate remedies.

The perils of reform

Debates over remedies for economic decline and over geo-economic policy in the late 1980s were overdetermined by the challenge posed to the SED leadership by reform in the USSR. The SED's dependence on the USSR, it is worth recalling, was absolute. Its core myths centred on the CPSU's heroic role in world history. Its leadership would occasionally buck at Moscow's interference in domestic affairs, but never could it forget its existential reliance on Soviet power and on the will of the Kremlin to use it. Gorbachev's reforms thus threatened to destabilise and delegitimise the GDR regime. They undermined the confidence and coherence of the SED leadership, committed as it was to the orthodox *status quo*. Its stable friend and ally was becoming a menace.

The greatest hazard was posed by geopolitical change. With Gorbachev in office a steady drip of comments by top Soviet officials⁷⁴⁷ indicated that the modalities of German division could be for discussion within a prospective 'common European home' – the prospect of ending the division of Europe

⁷⁴¹ As expressed to the author by Michael Brie, interview.

⁷⁴² 'We didn't believe in confederation,' says Rolf Richter (interview) 'but we did discuss it a lot in the mid 1980s.'

⁷⁴³ Schürer, 1992b, p. 142.

⁷⁴⁴ Interview with Helmut Meier; P-F Koch, 1992, p. 84; Christ and Neubauer, 1991, pp.60–1.

⁷⁴⁵ Dennis, 1993, p. 24; Mittag, 1991, p. 98.

⁷⁴⁶ Koch, 1994, p. 394.

⁷⁴⁷ Including Falin, Yakovlev, Portugalov, Dashichev, and Schevardnadze.

that the Kremlin was floating as a 'dowry' for its desired engagement with the West.⁷⁴⁸ Gorbachev refused to distance himself from such remarks. When asked by Honecker (in 1986) to discipline the poet Yevtuschenko for having spoken positively of German unification, Gorbachev refused – earning the implacable hostility of the SED leader from then on.⁷⁴⁹ A year later, a further impression that sacred alliances could be sold was given when Gorbachev informed a West German banker that he would be prepared to let the GDR exit the Warsaw Pact.⁷⁵⁰ If these early portents were verbal, practical steps quickly followed, notably Gorbachev's announcement, in 1988, of a major unilateral reduction in Soviet forces in Eastern Europe.⁷⁵¹ The threat to the SED leadership of Moscow's 'new thinking' was unmistakeable: East Germany owed its existence to its integration into a military and economic 'bloc,' defined according to Cold War political and ideological faultlines, and not least to the half a million Soviet troops on its soil.

The Kremlin's new-found warmth towards the West, secondly, put Berlin's 'special relationship' with Bonn in the shade, to the dismay of many SED members.⁷⁵² Whereas in 1985 Gorbachev's relationship to Bonn had been distinctly cool a turnaround had occurred. From 1987 East Berlin was sidelined into an envious cameo role, while the Bonn-Moscow axis blossomed. The GDR had been a pioneer of Soviet Bloc *Westpolitik*; now it lagged almost at the rear. Honecker's trip to Bonn was his last foreign policy success.

Thirdly, the changes in Moscow gave the green light to reformist thinking in the SED. Although only a small part of the *nomenklatura* unambiguously supported the *direction* of Gorbachev's reforms, many believed that the *fact* that he advocated change should be applauded. There was considerable sympathy for *glasnost* and *perestroika* throughout the state apparatus, including the Stasi.⁷⁵³ Some prominent SED members began, cautiously, to test the boundaries of orthodoxy. In 1988 Alfred Kosing published an article asserting that East Germany 'does not stand outside of the great process of change taking place in all socialist countries.'⁷⁵⁴ In the same year Hans Modrow, a politburo member with close links to Moscow, published an article praising China's 'special economic zones.' Modrow's friend and the former head of espionage, Markus Wolf, gave an interview in which he praised *glasnost*, and followed this up with a novel that dared to refer to some of the 'blind spots' in the history of German Communism.⁷⁵⁵ Even Krenz is said to have shown sympathy to the case for market reform in this period.⁷⁵⁶ Such rumblings were considerably stronger amongst the SED rank and file. In 'situation reports' prepared by the Stasi, one finds frequent references to SED members sympathising with Gorbachev's 'new thinking,' especially where it addressed problems 'which we have in East Germany too,' such as the 'varnishing of truth' and 'poor labour discipline.'⁷⁵⁷ In some SED circles plans for democratic and market reforms began to be discussed, in

748 Sieber, 1994, p. 87.

749 Küchenmeister, 1993, p. 19.

750 Nitz, 1995, p. 9.

751 The end of the Brezhnev doctrine had already been adumbrated at a Warsaw Pact meeting as early as 1986. Hertle and Stephan, 1997, p. 34.

752 Meinel and Wernicke, 1990, p. 94.

753 Mitter and Wolle, 1993, p. 509; Klein, 1994, p. 94.

754 Süß, 1989, p. 178.

755 Such as the imprisonment by Stalin of German Communists, and the Red Army's brutal record during and after its invasion of Germany.

756 *Die Andere*, 2/1992.

757 MfS document ZAIG 4205.

preparation for 'the arrival of an East German Gorbachev.'⁷⁵⁸ The most dramatic example of grassroots discontent came when a Soviet journal, *Sputnik*, was banned from the country in November 1988, an action that provoked hundreds of official protests by local SED organisations and even functionaries.⁷⁵⁹ The number of Party disciplinary hearings grew, with those expelled rising from under 7,000 in 1982 to almost 11,000 in 1988.⁷⁶⁰

For the reform-minded, the temptation to follow Moscow was complicated by a fourth factor: that the changes there were not meeting with success. A useful perspective can be gained by comparing the process in Russia with that of China. In both, reforms were initiated by a new group of party leaders concerned with declining growth rates and problems of the command economy. In both, the process commenced with 'traditional' measures (such as economic centralisation and campaigns), the failure of which prompted furthergoing reforms. These, begun in 1978 in China and 1986 in Russia, were gradualist and experimental in nature, and included measures aimed at the decentralisation of economic power. But in crucial respects the reform path in Russia faced greater obstacles. In explaining the divergence of the Soviet and Chinese trajectories, Robert Strayer has noted several critical factors.⁷⁶¹ Firstly, the USSR had been locked into the command mode more firmly and for longer: opposition to reform was therefore greater, prompting the Kremlin to adopt the risky strategy of *glasnost*. Secondly, on the land, new opportunities for quasi-private farming had met with a huge response in China but not in Russia. Thirdly, in China, decentralisation during the 'cultural revolution' had empowered the local authorities, which had gone on to become key agents of accumulation. Last (but not least) Strayer suggests that timing mattered. Whereas in Russia the process had begun following years of domestic downturn, in China the initial reforms occurred during the final spurts of the long worldwide boom and were accompanied by astonishing levels of domestic growth. Virtuous circles of growth, reform and political stability ensued, lasting for a decade or more. In addition, I would add, the 'high risks' entailed by *glasnost* began to intersect with an additional set of problems that China did not have to face, of effecting a political and economic reconstitution of Russia's 'informal empire' in Eastern Europe, and, in turn, the prospect of changes here reacting back upon movements within the USSR itself.

The reforms in Russia therefore faced grave difficulties from the outset. The Gorbachev leadership was forced to tack back and forth, to reverse, stall or compromise at one stage, only to be pulled forward faster than it desired at another. Loss of central control over events threatened at every stage. Already in 1987 the East German politburo member Günter Schabowski was able to compare Gorbachev to 'a cyclist going down a hill who has lost control of the vehicle. The wheels are turning ever faster but he can't stop it.'⁷⁶² From the end of that year, according to Soviet deputy prime minister Leonid Albalkin, the reform process faced trouble on a number of fronts, including a 'deteriorating economic situation,' 'rising social tension'

758 Interviews with Mario Kessler, Rolf Richter, Helmut Meier; also Nitz 1995.

759 The ban signalled the SED's rejection of *glasnost*. The suppressed issue hinted at the KPD's terrible blunders in the battle against Nazism before 1933. This questioning of the KPD's antifascist credentials, by a *Soviet* publication, brought the two touchstones of SED legitimacy into an explosive contradiction.

760 Document reproduced in Modrow, 1994, p. 264.

761 Strayer, 2001.

762 Prokop, 1993, p. 25.

and 'growing dissatisfaction with the progress of the reforms'.⁷⁶³ The reforms not only provoked resistance from conservatives, but also furnished space for and spurred the politicisation of wide sections of society, leading to the rise of mass movements of workers and oppressed nationalities – hardly an attractive scenario for SED functionaries who sympathised with Gorbachev's intentions. As Schürer recalls: 'When Gorbachev appeared, truly hopeful political thoughts came to me. However, the longer *perestroika* went on, the more disappointed I became. For the country underwent economic regression and national fragmentation.'⁷⁶⁴

Moscow's new melodies therefore put the SED-regime in a quandary. Continuing and worsening crisis in Russia signified that not only the basic 'command' model was in trouble but 'reform communism' too. Reforming STEs, whether under 'hawks' such as Jaruzelski or 'doves' in Moscow and Budapest, were in trouble, as were intransigent regimes such as Ceaușescu's Romania.⁷⁶⁵ For the GDR to follow the reform route threatened to open splits even worse than those that were blighting the CPSU, and could well catalyse domestic upheaval. GDR officials were therefore keen to remind the domestic audience as well as the Kremlin that 'reforms in East Germany could lead to an uncontrollable situation which the Soviet Union would be the first to regret.'⁷⁶⁶ To keep to the current course, however, involved a cooling of the SED's relationship with its political and ideological Godfather, and generated frustration amongst wide layers of functionaries who were convinced that the rails of history were pointing towards reform.⁷⁶⁷ The hostility between Honecker and Gorbachev, as one senior SED functionary phrased the problem, was drawing his 'little country' into an unwinnable 'war on two fronts.'⁷⁶⁸

'The catastrophe is about to begin'

The structural problems and contradictions that have been examined in this and the previous chapter – the STEs' relative economic decline, the weakening of the USSR, intra-Comecon tensions, and the challenge posed by Soviet reforms – impacted profoundly on the behaviour, thinking, and confidence of policymakers and their apparatuses of control and support. Their aims became more limited and increasingly difficult to achieve, their decisions more difficult to justify and more liable to face critique. In the 1960s SED leaders had exuded confidence. Ulbricht could even proclaim that the GDR could overtake its Western rivals 'on the economic front'. From the mid-1970s and even more so from the mid-1980s symptoms of deteriorating confidence appeared at all levels. Even policymakers, as Charles Maier describes, began to 'lose faith'; they began to 'share their critics' sense that the economic and social

763 Knight, 1991, p. 9.

764 Zimmermann and Schütt, 1992, p. 185.

765 Brzezinski, 1990; Haynes, 1988.

766 *Financial Times*, 3.6.88.

767 E.g. Nitz, 1995, p. 104.

768 Zimmermann and Schütt, 1992, p. 171.

stalemate could not continue.' Equally, however, 'they did not know how to extricate themselves or devise decisive reforms.'⁷⁶⁹ As a result, a mood of 'frustration with the ageing and unresponsive leadership in Moscow and East Berlin' grew amongst middle level functionaries.⁷⁷⁰ To some extent demoralisation could be traced to economic problems. Although a wealth of archival and interview evidence attests to functionaries' frustrations with, for example, shortages in all periods, it is difficult to deny that these tended to mount through the 1980s.⁷⁷¹ Economic problems, moreover, connected to divisions amongst policymakers that further undermined morale. A much quoted example is the aforementioned clash between Mittag and Schürer that prompted the Stasi's economic unit to warn of 'how demoralizing an effect Mittag's attack was exerting on economic debate within Party ranks'.⁷⁷² Of course, such clashes over priorities are the everyday currency of politics, but as underlying contradictions accumulate, political conflicts tend to sharpen.

Most of all it was the fracturing of the Soviet bloc and Moscow's reforms that undermined the confidence of official East Germany. The Kremlin came to symbolise, for some, a worrying decline in Soviet power and an untrustworthy ally – for example, when comments attributed to Soviet officials indicated that Honecker was widely viewed as 'a candidate for retirement'.⁷⁷³ For others, Gorbachev represented resolution and initiative, qualities that the domestic leadership blatantly lacked. Their lack of response to Soviet reform was widely seen as a sign of inadequacy. As the Minister of Culture later recalled,

When Gorbachev arrived, my hopes rose once again. But the attitude of the SED leadership shattered my last illusions. [...] I said to my P.A.: Hermann, now the big catastrophe is about to begin; now we're missing the last opportunity. We could have jumped on board this train, but from now on we'll only be seeing the red lights go by.⁷⁷⁴

In general, within the ruling class and amongst middle functionaries, respect for the leadership disintegrated further.⁷⁷⁵ Many managers developed a decidedly sceptical, even scathing attitude towards the SED leadership.⁷⁷⁶ Some were critical of the lack of market reform, others were frustrated by the fact that 'there was obviously no unitary position in the government regarding external economic strategy'.⁷⁷⁷ For their part, SED leaders, privately, grew more critical of Honecker.⁷⁷⁸

⁷⁶⁹ Maier, 1997, p. 57.

⁷⁷⁰ Wolf, 1998, p. 318.

⁷⁷¹ See for example interviews in Zimmermann and Schütt, 1992 and 1994. By 1989 the Stasi's 'situation reports' were noting, 'increasing evidence of "fatigue symptoms" and sheer resignation amongst leading cadre and employees in the retail sector'. BStU, ZAIG 5352, Berlin, 6 June 1989.

⁷⁷² Maier, 1997, p. 72. Interviews with Helmut Meier and Rolf Richter confirm this impression.

⁷⁷³ *Financial Times*, 3.6.88.

⁷⁷⁴ Zimmermann and Schütt, 1992, p. 126.

⁷⁷⁵ According to Helmut Meier and Rolf Richter, interviews, also Nitz, 1995, p. 105.

⁷⁷⁶ Meier and Richter interviews; also Kronisch and Lapp, 1992, p. 129.

⁷⁷⁷ In the words of a *Kombinat* general director. Falkner, 1994, p. 28.

⁷⁷⁸ Herger, interview in Villain, 1990, p. 120.

‘The spectre of splitting the Party’

Something approximating a mood of panic began to infiltrate the corridors of power.⁷⁷⁹ In February 1988 Mielke summoned his generals to a crisis meeting at which he warned that persistent failures in the economic and ‘scientific-technical’ fields were threatening the GDR’s ‘defence capabilities’ and could result in ‘extreme transformations in living conditions’.⁷⁸⁰ Around the same time, Mittag warned his colleagues that ‘a situation has arrived where it could all capsize.’⁷⁸¹ Quite simply, the habitual formulae of rule no longer seemed to work. Tactics of harsh repression and liberal concessions were both tending to excite stronger protests and emigration movements. *Westpolitik* was in crisis, as the GDR failed to consolidate its status as favoured partner of DMEs, but its dependence on the West was greater than ever. The reform path of Poland or Hungary was rejected, yet Honecker was, equally, under no illusion that ‘we could go the Romanian way either; the situation vis-à-vis the FRG will not allow that.’⁷⁸² Worst of all, the SED-state was wedded to a Great Power whose leader wanted to maintain its ‘bloc’ yet the logic of whose reforms hastened its dissolution.

Thus, within the apparatuses of power there was a widespread sense that ‘something must be done,’ but no easy solution appeared. A mood of impotent frustration gathered. Consider, for example, this recollection by politburo member Siegfried Lorenz:

even I gradually came to realize that there was something wrong with our economic system, that fundamental changes would have to be made to our economic policy. But adequate conceptions were beyond me too. [...] Especially since the mid-1980s there was no doubt that fundamental changes and reforms were necessary in the GDR. There was much discussion about this, say, with Egon Krenz and Werner Felfe. And yet at the end of the day we just kept our mouths shut, ultimately we had no plausible and comprehensive alternative – not even when it came to ousting Honecker.⁷⁸³

‘The crazy thing was,’ as Markus Wolf recalls, the need for change was widely recognised, and ‘whoever you talked to, even in the highest levels – with the exception of a few of those right at the top – they all had this opinion. But they did nothing. That counts for those who should have acted, myself included.’⁷⁸⁴

With Gorbachev’s accession to power support for market reform grew, but it was relatively diffuse, with no clear concepts, and never became manifested in an organised reform wing of the SED. Reformers were conspicuous by their absence and timidity. No reformist SED member, as far as LDPD leader Manfred Gerlach could recall, ‘had, to my knowledge, fought for a change of course in the Honecker period.’⁷⁸⁵

779 Simon, 1990.

780 Koch, 1994, p. 393.

781 Hertle and Stephan, 1997, p. 37.

782 Hertle, 1996a, p. 71.

783 Zimmermann and Schütt, 1992, pp. 148–154.

784 Land and Possekel, 1994, p. 26.

785 Gerlach, 1991, p. 296.

Some, such as the future PDS leader André Brie, looked to the Stasi as the best hope for reforms.⁷⁸⁶ Another, Gregor Gysi, later admitted that 'we did not see ourselves as an opposition within the Party.'⁷⁸⁷

With hindsight many commentators have criticised the resistance to reform as a 'policy failure.' But this ignores the entrenched nature of the contradictions involved: the ever narrowing room for manoeuvre of a *nomenklatura* caught between the imperative to increase investment and the stubborn strength of the working class, and between the imperative to open further to the world market and the fear of its own demise. It is also to ignore the dangers of liberalisation. Given the politicised nature of surplus extraction and the centralisation of the apparatuses of exploitation and oppression, the *nomenklatura's* unity and cohesion was vital to political stability. The spectre of Party splits and social upheavals haunted the defenders of orthodoxy and reformers alike. The crises and transformations of 1953, 1956 and 1968 had instilled a deep fear of major reform initiatives and the inner-Party divisions that they entail, not least on the dangerous question of relations with the FRG. As one politburo member recalls, the 'decisive brake' on reform was always 'the spectre of splitting the Party,' together with the related 'fear that if Honecker was challenged everything could collapse.'⁷⁸⁸

By 1989 no position offered a way out. Those who perceived the true extent of economic failure tended to polarise, with some placing an emphasis on security, guaranteed by the Soviet military shield, and others advocating radical reform. The former, however, were forced to recognise the dissolution of the Soviet sphere, while reformers were paralysed by the spectre of splits. The few who believed that the *status quo* was the best of all possible worlds were obliged to witness the cracking and crumbling of the walls upon which it rested. Most functionaries clung to the hope that the regime would 'muddle through somehow,' as it had done so often in the past. The credit lines arranged by Schalck had helped to generalise a sense that the system would carry on functioning, that although crisis signs were omnipresent, they would be kept under control. Some even placed their faith in KoKo, hoping that Schalck would perform further miracles.⁷⁸⁹ As these remarks indicate, a culture of deception was descending over East Berlin in the late 1980s. Honecker himself was undoubtedly the most affected – the political autism, as it were, that he and his coterie displayed on the eve of revolution seems astonishing, reminiscent of that of Tsar Nicholas in the run-up to the Russian Revolution of February 1917.⁷⁹⁰ In 1987, for example, when passed information that Kremlin officials were discussing the possibility of eventually releasing the GDR from the Warsaw Pact, he later recalled, 'we neither could nor wanted to believe such warnings'.⁷⁹¹ On another occasion, he simply denied that a debt problem existed.⁷⁹² It was not simply the older or more conservative elements that were affected. Younger and reform-inclined SED leaders also recall the period – even as late as

786 Land and Possekel, 1994, p. 43.

787 Rüddenklau, 1992, p. 283. Even in 1989, no organised public declaration by SED reformists was made until extremely late in the day, in November, when Michael Brie and others at the Humboldt University wrote to the central committee demanding democratic reforms.

788 Herger, interview in Villain, 1990, p. 120; Hertle and Stephan, 1997, p. 325.

789 Interview with Meier and Richter.

790 Cf. Trotsky, 1980, p. 53.

791 Nitz, 1995, p. 69.

792 Stephan, 1994, p. 205.

December 1989 – as having been characterised by self-deception and ‘self-censorship.’⁷⁹³ Age was not to blame, as is often assumed, as much as the intractable nature of the predicaments they faced.

⁷⁹³ E.g. Günter Sieber, in Zimmermann and Schütt, 1992, p. 228.

8. The Revolution of 1989

At the beginning of 1989 the Soviet bloc was visibly entering a major crisis, the course of which was not predictable any more than its eventual outcome was inevitable. With Gorbachev in office, market reform coupled with some sort of democratisation, or under authoritarian conditions as in China, could be expected in much of Eastern Europe. However, although the Gorbachev leadership was committed to maintaining Soviet power and communist-party rule by way of economic and political reforms, these came too late; the road to reform was about to be closed off by a cascade of regime shifts, revolts, uprisings across the USSR and Eastern Europe.

In the first months of 1989 Moscow supported, or at least tolerated, a series of remarkable domestic and foreign policy shifts in Hungary and Poland, that were described by an incensed Honecker as 'the visibly accelerating erosion of socialist power, achievements, and values'.⁷⁹⁴ In January, non-Communist parties were legalised in Hungary. In February, round table talks began in Poland. In April, the Hungarian politburo resigned *en masse*. In May, Budapest – in the context of the failure of 'market socialism' to resolve the problem of spiralling debt, coupled with the promise of financial sweeteners from Bonn – began to dismantle the fortifications on its border with Austria.⁷⁹⁵ In June, the Polish Communist Party rescinded its power, following one of history's more extraordinary parliamentary election results. Crucially, Moscow did not question the outcome (although it did insist that Communists retain the defence and interior ministry portfolios). In July, Gorbachev confirmed, in an address to the Council of Europe, that in the Kremlin's view any change in the 'political order' of its allies 'is the exclusive affair and choice of that country. Any interference in domestic affairs and any attempt to restrict the sovereignty of states, both friends and allies or any others, is inadmissible.'⁷⁹⁶ Statements by senior functionaries even indicated that the USSR – although keen to retain the GDR as a sovereign ally – would not oppose German unification should it occur.⁷⁹⁷

The departure of 'riff-raff and labour power'

Hungary's dismantling of the 'Iron Curtain' was not prime time news in East Germany but certainly did not go unnoticed. Before long a trickle of East German holidaymakers in Hungary were using the opportunity to emigrate. Thousands more, as well as many of those who were turned back from the border, entered the West Germany embassy in Budapest, and those in Warsaw and Prague too. The trickle gradually became an exodus. In August, with conditions in the embassy becoming intolerable, and with

⁷⁹⁴ Hertle, 1996a, p. 92.

⁷⁹⁵ The Hungarians made the decision in the knowledge that West German aid, in the form of a DM 500 million credit, would flow, although from the available evidence it seems that the linkage involved was only indirect. See Adomeit, 1998, p. 392; also Modrow, 1991, p. 24; *The Fall of the Wall*, 1994.

⁷⁹⁶ Bideleux, 1996, p. 199.

⁷⁹⁷ Plock, 1993, p. 159.

thousands of East Germans seeking to emigrate being housed in temporary camps, Hungarian Foreign Minister Gyula Horn, as Angela Stent recounts,

decided that this situation could not continue. Hungary and the GDR had signed a treaty obliging Hungary to repatriate any East German citizens who were trying to flee to the West. Horn decided that Hungary could no longer honor this treaty. West Germany had become Hungary's major Western economic partner, had given it substantial credits, and had encouraged its reformist government. In a series of intense discussions between Hungarian and West German officials, especially Horn and Genscher, the two sides worked out an agreement whereby the Hungarians, in a move that was unprecedented in the history of the Warsaw Pact, would break their treaty with the GDR and allow the East Germans to leave for West Germany, with financial and transportation assistance from Bonn.⁷⁹⁸

In East Berlin a stiff silence was maintained, punctuated by formal declamations of the unity of the socialist bloc. The only plausible reaction to such paralysing circumstances was, it seemed, to sit tight, in the hope that the crisis would resolve itself. Those in charge seemed to hold faster to the certainties that had underpinned their survival thus far. In his report on an important central committee meeting in June one journalist captured the 'Tocquevillian intuition' of the SED leadership at the time: 'The message of the 8th central committee plenum is the following: No experiments, or else the entire edifice of rule will start to crumble.'⁷⁹⁹ Behind the scenes, however, severe annoyance was expressed at what Honecker described as Hungary's 'slide into the bourgeois camp.'⁸⁰⁰ In meetings with their Soviet-bloc counterparts Honecker and Stasi chief Mielke expressed their 'profound concern' about developments in Hungary and Poland; at one point Mielke even hinted that cooperation with the KGB would be in jeopardy if Soviet foreign policy continued on its 'tactless' course.⁸⁰¹

When in August the flow of emigrants became a flood, the East German regime was forced to react. SED officials desperately attempted to swing opinion in the Kremlin with urgent warnings of the catastrophic consequences for socialism and for the Warsaw Pact should Hungary continue on its course.⁸⁰² To no avail. For all the attacks by Soviet news agencies on West Germany's encouragement of the exodus, the Kremlin did not accede to the SED's wishes and accepted the dismantling of its ally's strict border regime. On 10 September, Hungary formally opened its borders to the West.

If the actions and inactions of Moscow and Budapest were eroding the pillars upon which the security of the East German regime rested, something not dissimilar was occurring to the West too. Rather like the USSR, Bonn's stance in the summer months evinced an uneasy balance. On the one hand, the accustomed stance of supporting stability in the GDR was largely observed – particularly by Foreign Minister Hans-Dietrich Genscher and his staff, and with the support of the Social Democrat opposition. Throughout the summer and autumn there is considerable evidence that this position was maintained. On 23 July, a

798 Stent, 1998, p. 86.

799 Kuppe, 1989, p. 722.

800 Stephan, 1994, pp. 126–45.

801 Mielke and Schebarschin, 1993, p. 1034.

802 Stephan, 1994, p. 127.

government minister broadcast an appeal to East German citizens that they should not join the exodus. Soon afterwards Bonn, like Washington and London, closed its embassy in Berlin in order to discourage occupation by emigrants. In September, former prime minister Helmut Schmidt lent his weight to the continuation of traditional *Ostpolitik*, arguing that an upheaval in East Germany would be damaging to 'the reform process in Eastern Europe.'⁸⁰³ Even at the end of October, West German business leaders and politicians were continuing to stress that a 'calming of the situation' in the GDR was imperative.⁸⁰⁴ Kohl himself, in a phone call to the new SED leader, 'Mr. General Secretary Krenz,' emphasised that

In your important and very, very difficult task I wish you the best of luck and success. [...] In our interest, in my government's interest, and above all in my own interest, the situation in the GDR must not develop in such a way as to make a calm, sensible development impossible.⁸⁰⁵

Clarifying his meaning, Kohl added that the last thing he wanted was 'to awake expectations which would raise the pressure; that wouldn't help either of us'.⁸⁰⁶ On the other hand, the exodus clearly upset the traditional, carefully calibrated inter-German relationship and so offered the opportunity of developing new positions. Some West German officials, editors and politicians energetically encouraged the exodus. In late August Chancellor Kohl used the opportunity to announce that the German question was 'back on the international agenda.' Beneath the surface appearance of stability, the sands were shifting.

If the support for the exodus by sections of the West German establishment was the focus of public discussion during the summer crisis, the *economic* dimension of the events, although barely noticed either at the time or in histories of the period, was also to act as a powerful constraint upon GDR policymakers. Although net per capita emigration was below that experienced by countries of high emigration (such as nineteenth century Ireland), because labour shortages in East Germany were intrinsic and severe the economic effect of the exodus was magnified. 'Even though they're such useless riff-raff,' as Mielke viewed the matter, 'the fact remains that labour-power is disappearing.'⁸⁰⁷ The exodus of workers and professionals was perceptibly damaging certain sectors of the economy and contributing to a persistent underachievement of export targets.⁸⁰⁸ And the latter, against a background of economic stagnation, threatened to tip the economy once again into full-blown debt crisis.

In September, Schürer, Schalck, Beil and others prepared a paper that addressed the issue of the country's ominously high debt-service ratio (the percentage of export earnings required to pay interest on cumulative debts). Escalating interest payments, they argued, necessitated not only a sharp rise in exports but also the securing of 'credit lines of VM 8-10 billion' annually. This, they warned, inevitably entailed a high degree of dependence on DME governments, notably the FRG and Japan, as well as 'capitalist banks'

803 Schneider, 1992, p. 73.

804 Nakath and Stephan, 1996, p. 218.

805 Stephan, 1994, p. 180.

806 Kohl's general approach to the Krenz regime was so courteous that it met with a good deal of astonishment in the East. 'Everybody is amazed that the West German chancellor approaches [Krenz] in such a manner,' as one East German priest reported the mood. Weber, 1990, p. 22.

807 Mitter and Wolle, 1990, p. 134.

808 *Frankfurter Allgemeine Zeitung*, 2.10.98.

– especially the Japanese institutions that owned over three quarters of the country’s hard-currency debt.⁸⁰⁹ Yet with political turmoil increasing these banks were showing signs of concern for the security of their loans. The general director of the Bank of Tokyo, for example, demanded in mid-September that the head of the GDR State Bank present an assessment of how the exodus of so many young people would affect economic performance. The president of *Crédit Commercial* expressed similar concerns.⁸¹⁰ Much East German debt was short term, so the potential threat posed by twitchy creditors was of great concern. As the case of Poland in the early 1980s had demonstrated, Schürer *et al.* warned, the banks could insist upon mediation through the IMF, with rescheduling permitted only if ‘conditions laid down by the IMF are accepted.’⁸¹¹ Moreover, although international banks can be expected to display an aloof amorality concerning the political methods that regimes deploy to ensure the flow of interest payments, in East Germany’s case its financial credibility in the eyes of lending institutions depended ultimately upon Bonn’s goodwill. In this context, SED leaders felt the imperative of maintaining solvency as a heavy constraint upon the domestic policy options available to them.⁸¹² ‘[T]he GDR leadership was restrained in the severity of its response’ to the exodus and protests, as Stephen Szabo has argued, ‘by the fear of the consequences for its economic relationship with the FRG.’⁸¹³

Changing the old guard

Constrained by Moscow’s ambivalence, Budapest’s ‘treachery’ and its financial reliance upon international banks and Bonn, the SED leadership was unable to confront the crisis posed by the exodus. At politburo meetings in September the proposals made took the form of wish lists at best, others were positively counter-productive. ‘We must produce more, and earn more hard currency,’ said one. Articles must be published condemning Bonn’s flouting of international law, said another. ‘The alliance of the Warsaw Pact must be mobilised against German imperialism,’ said a third.⁸¹⁴ According to politburo member Günther Schabowski, his colleagues even rejected his proposal that discussion proceed from a recognition that a severe crisis was in process.⁸¹⁵

The impotence of the leadership reverberated downwards, prompting questions, doubts and confusion throughout the Party and state apparatuses. Already in mid-summer signs of unreliability had been growing. The ‘Agitation Commission’ complained of ‘indiscipline’ amongst media employees.⁸¹⁶ Some of the ‘factory militias’ were beginning to show signs of ‘dissolution’.⁸¹⁷ The army reported that it

809 Przybylski, 1992, pp. 358–63, 212.

810 Przybylski, 1992, p. 75.

811 Przybylski, 1992, p. 362.

812 See e.g. Mittag, 1991, p. 29. For Mittag’s ‘hypocritical optimism’ in his public pronouncements on the economy, see Przybylski, 1992, p. 213.

813 Szabo, 1992, p. 15.

814 Stephan, 1994, pp. 118–124.

815 Schabowski, 1990, p. 12.

816 Simon, 1990, p. 123.

817 Neubert, 1998, p. 788.

was becoming increasingly difficult to recruit officers. Amongst Stasi officials signs of 'unreliability' and stress began to mount.⁸¹⁸

The regime's inability to suppress the emergent threat to its power galvanised society from top to bottom. Immediate and acute political questions dominated discussion throughout society: would all borders be closed? Would repression be intensified? Were the emigrants right to leave? Should we emigrate too? Protest letters and resolutions began to pour in to the authorities and the media. Protestors – would-be emigrants seeking expatriation, as well as political oppositionists calling for reform – began to take to the streets, adding an explosive new dimension to the crisis.

Matters came to a head in the first week of October, as a result of assertive acts of protest by would-be emigrants and the sheer numbers of protestors on the streets, coupled with clear signals from Gorbachev that Honecker could not count on Soviet political and military backing for a hard-line repressive course of action. With the difficulties posed by a repressive course (a 'Tiananmen solution') escalating, a growing number of SED leaders began to indicate disagreement with the prevailing strategy and to consider switching course to one of 'defensive liberalisation.'⁸¹⁹ Honecker, along with several other hard-line leaders, were duly replaced by a new leadership under Egon Krenz.

Selling the Wall

Krenz had long been seen as Honecker's Crown Prince and his administration could hardly be described as reformist. Throughout October many functionaries remained in hardline mode, calling their members to the battle stations to prepare for the final violent struggle against the 'anti-socialist' demonstrators.⁸²⁰ Nonetheless, the main effect of the change of guard at the top was to focus attention on the measure of the problems facing the regime. Although economic matters were not the most pressing of these, in late October two key papers were prepared that analysed the situation and proposed remedies. One was by General Kleine of the Stasi, for that organisation's economics department. The other was prepared by Schürer, Schalck, Beil and others, for the politburo.⁸²¹ Both presented an alarming picture, drawing attention to the long-term decline in rates of accumulation and investment and to the explosion of state debt to the domestic credit-system as well as to foreign banks. Kleine's report was particularly striking for the urgency of tone and the frequency with which connections between emigration, economic crisis and 'the survival of our republic' were drawn out. The following extract gives a sense of the paper's main thrust:

[M]aintaining our solvency is a question of the existence of socialism in the GDR.

818 *Die Andere*, 39/1991; Riecker, 1990.

819 Batt, 1991.

820 For an example, see documents in Meinel and Wernicke, 1990, esp. pp. 159–60.

821 Schürer, 1992a.

That is why it is an issue of the highest security-political importance for us when competent persons estimate that, in connection with the current internal situation in the GDR, bankers from the non-socialist-abroad question us ever more persistently about the credit-worthiness of the GDR.

An article in the *Frankfurter Allgemeine Zeitung* of 12.10.1989 points out that in the bi-annual credit assessment of an American finance institute the GDR has fallen into disgrace and has been demoted in the rankings of credit-worthiness.

Then it goes on: 'In the light of the GDR's loss of prestige due to the mass exodus of its populace, another demotion within the next six months is highly likely. This, as is well known, will have consequences for the rate of interest that the GDR must pay to the West on its debts.'

That also means, of course, that if we do not manage, in the next days and weeks, to bring 'tangible calm' to the process of social development, consequences for procuring new loans are foreseeable.

In this regard it is worth remembering that the recent developments in Poland and Hungary to a certain extent had their origins in these countries' insolvency. With the dearth of Western loans came a drastic worsening of the economic situation and of living standards, and counter-revolution was able to steadily gain ground.⁸²²

The Schürer paper made similar points to an earlier version, discussed above. The GDR's debt-service ratio, it estimated, was topping 60 per cent (and alarm bells normally ring at a quarter or third of that figure).⁸²³ 'Immediately impending insolvency' loomed, which would provoke a moratorium on further loans by the GDR's international creditors.⁸²⁴ So worried were SED leaders by these figures that when debt came up for discussion at a central committee plenum Krenz insisted that the figures not be published, lest 'the international banks use them against us.'⁸²⁵

If both papers painted a devastating picture of the depth of crisis, their policy proposals were altogether different. Kleine's largely reflected the 'Comecon-oriented' tendency. Many of its recommendations were vague exhortations – to raise productivity and the rate of accumulation, strengthen the export sector, introduce new technologies, increase investment, restructure R&D, and improve conditions in the workplaces. Its major geo-economic proposal, that cooperation with the other Comecon countries be accelerated, was equally general and still less realistic: not only was Comecon in an advanced state of fragmentation, but within the country established opinion had swung against such views.⁸²⁶ A large proportion of managers and of second-row functionaries who were now in the ascendant favoured closer cooperation with the West. The ideas they were discussing included lifting the state's foreign trade monopoly, introducing market reforms, and even orienting the GDR's economy around West Berlin –

822 Bastian, 1994, pp. 6–7.

823 Although their conclusion was based on a significant overestimate of the GDR's hard-currency debts, the diagnosis of impending default was not far from the truth. See Volze, 1996, p. 711.

824 Hertle, 1992, p. 1023.

825 Hertle and Stephan, 1997, p. 394.

826 Bastian, 1994, p. 16.

rather as Guangdong is to Hong Kong.⁸²⁷ Schürer and his co-authors inclined in this general direction too, and the fact that their paper was presented to and taken seriously by the politburo attests to the strength of that current. Their recommendations included austerity measures (notably major reductions in subsidies for consumer goods), market reform and heightened cooperation with the West. The latter was, among other things, a vital requirement if further loans were to be secured. Some new credits would be provided by countries such as France and Japan (which, SED leaders believed, had an interest in keeping Germany divided – ‘so that a large competitor does not get larger’).⁸²⁸ However, Bonn would necessarily be a major facilitator of further loans, and that inevitably implied major political concessions. The possibility of easing travel to and from the West in return for economic advantage had long been under consideration at the margins of *nomenklatura* strategising.⁸²⁹ Now, following exploratory talks by Schalck in Bonn, Schürer *et al.* recommended that the border could be opened ‘before the end of the century’ if aid from Bonn could be gained in exchange.⁸³⁰

With these proposals fresh in his mind, Krenz flew to Moscow in early November for talks with Gorbachev. The basic dilemma he disclosed cannot have come as a surprise to the Russian, but the estimates of the GDR’s debt certainly did. These were so high, Krenz claimed, that simply to avoid a further increase in indebtedness required that living standards be ‘immediately’ slashed by 30 per cent.⁸³¹ Yet ‘politically,’ he continued, with magnificent understatement, this ‘would be irresponsible.’⁸³² Given the scale of the protest movement, the times were hardly auspicious for cutting budgets, closing firms, or sacking workers. Gorbachev, though, could provide little consolation. Given the USSR’s own crisis the provision of aid was unthinkable. Apart from advising him not to be ‘scared of the people’ all that he could suggest was that Krenz and his colleagues, while keeping the full severity of the crisis secret, should warn the population that they had been ‘living above their means for years,’ and should take steps towards the easing of inter-German travel in return for concessions from Bonn.⁸³³ That insufficient hard currency would be available for East Germans to travel abroad could be overcome, he added hopefully, if the Mark were made convertible.⁸³⁴

Gorbachev’s suggestions were broadly in keeping with the direction that Krenz’s administration had begun to chart in its first weeks in office. Liberalisation of travel and emigration was, it acknowledged, an urgent task. Its original intention was to make gradual reforms, permitting expanded opportunities for travel and legalised emigration in exchange for major concessions from Bonn.⁸³⁵ As we know, this was not to be. ‘The plan was,’ as politburo member Wolfgang Herger put it, that ‘in a good, orderly Prussian manner, a decree will be published to the effect that, as from November 10, GDR citizens may attend the

827 Nakath *et al.*, 1998, p. 64.

828 Roesler, 1993a, p. 571.

829 Nitz, 1995, p. 58 and *passim*.

830 Hertle, 1992, pp. 1023–4.

831 Krenz was using the somewhat exaggerated figures in the report by Schürer *et al.* See footnote # above.

832 Hertle, 1992, p. 1027.

833 Stephan, 1994, p. 200; Hertle and Stephan, 1997, p. 64.

834 Hertle, 1996a, p. 474.

835 Nakath and Stephan, 1995, p. 224.

appropriate offices and receive their passports, in order to travel.’⁸³⁶ The state would thereby maintain control over the border regime, not least through its control over the disbursement of passports and exit visas. In the event, on 9 November an ill-prepared politburo member announced in reply to a journalist’s question that the new regulations would take immediate effect. That evening, as William Smyser has described, the border checkpoints

located north of the centre of Berlin and near large East Berlin worker housing complexes, began drawing large crowds. [...] The workers, well versed in the language of the GDR bureaucracy, shouted at the guards in an authoritative tone that they had heard the announcement from SED politburo member Schabowski and now wanted to get through as he had said.⁸³⁷

Not a single SED leader had expected, in Herger’s words, ‘that merely the announcement’ that travel restrictions were to be relaxed ‘would catalyse a mass storming’ of the Wall.⁸³⁸ Lacking clear guidance from their superiors, the officers at several checkpoints felt that they had no option but to yield.

Crowd action on 9 November dealt a major blow to the government and justly captured the limelight. Yet the ground had been prepared – indeed, the Wall had already in effect been toppled – in the previous week, during which the government, not least those officials delegated with the task of preparing the new law on travel, had become trapped within a triangle of forces formed by the domestic protest movement, its nascent counterpart in Czechoslovakia and continued emigration.

The first corner of the triangle, the protest movement, was reaching new peaks in terms both of numbers involved and ‘temperature’. Hitherto, hopes had been invested in government-guided reform; slogans berating the regime had usually been playful and punning. Now, a new mood gained ground. Demands became more radical, slogans sharper. A growing minority now attacked the SED’s power monopoly, called for the abolition of the Stasi, and called on the entire government to resign. But of them all, the demand that rang the loudest was for the freedom to travel. So when an initial draft of a law relaxing travel restrictions was published, the announcement was met not by a grateful citizenry, but a clamour of indignation that focused in particular on the proposed law’s failure to arrange adequate provision of the hard currency that visiting the West would require. Banners on the demonstrations now read ‘We don’t need new laws – the Wall must go!’

Meanwhile, and connecting the second and third corners of the triangle, would-be emigrants had once again occupied West Germany’s embassy in Prague. Fearful that the issue might spark domestic politicisation, as had occurred in Hungary, the Czechoslovak government permitted East Germans to emigrate across its western border from 3 November. Around 9,000 per day now proceeded to do so – a rate that, if sustained, would amount to the equivalent of Magdeburg or Rostock disappearing each month. Officials drafting a new travel decree were instructed to sort out the problem of the Czech border. But they were trapped. One solution mooted was to explore the feasibility of closing the border with Czechoslovakia, in effect effacing two of the triangle’s ‘corners’. But this would only serve to heighten the

836 Hertle, 1996a, p. 344.

837 Smyser, 1999, p. 343.

838 Hertle, 1996a, p. 341.

potential force of the third, domestic protest. For 'if East Germany closed,' as Foreign Minister Oskar Fischer put it, 'a trial of strength would ensue.'⁸³⁹ Given the 'explosion' that this might provoke, officials decided that they had no choice but to drop all restrictions on permanent emigration.⁸⁴⁰ This solution to the problem of *emigration*, however, only served to aggravate the problem of regulating *tourist trips*. It was becoming increasingly apparent that no clear divide between the two forms of travel existed. Scores of those who had apparently emigrated in recent weeks were now returning. Perplexed border guards reported their motives for departing as 'adventurism, day-trips, and testing the plausibility of the GDR media.'⁸⁴¹ Their re-entry, however, highlighted the problem of maintaining restrictions for 'mere' holidaymakers if those on emigration were to be relaxed. Discriminating in favour of emigrants and against 'patriotic citizens,' Interior Ministry officials were forced to admit, would be 'politically irresponsible.'⁸⁴² It seemed that the only narrow path between the Scylla of 'social explosion' and the Charybdis of uncontrolled movement was to permit the existing four million passport holders to travel, followed by those who would dutifully attend state offices to receive theirs, with all being obliged to request exit visas. Yet even this attempt to enforce deference to the state's authority was briskly swept aside by the Berlin crowds.

The storming of the Wall was, for the government, a political and economic disaster. Its greatest bargaining chip, control over its subjects' movements, had been knocked from its hands. 'Before, every border crossing to the FRG would bring in tens or hundreds of millions,' the new prime minister Hans Modrow complained. 'Now we have ninety-three border crossings, sixty-three extra, and must try ever so hard to win compensation in order to help get the economy back on its feet, but they [Bonn] are not being very forthcoming.'⁸⁴³

Three planks of economic reform

The same period that saw the elaboration of plans to 'sell' the Wall, only for these to be wrested from the government's hands, witnessed the elaboration of plans for economic reform that were, similarly, accelerated and yet substantially undermined by the fall of the Wall. With the replacement of Honecker by Krenz the ideas of the NES – to expand the role of the market, orient to world market prices and decentralise the *Kombinate* – now returned to mainstream debate, having been kept at the margins for almost two decades.⁸⁴⁴ In their second coming, however, they were more intense, far-reaching and urgently expressed.

839 Hertle, 1996a, p. 488.

840 Hertle, 1996a, pp. 217–8.

841 Hertle, 1996b, p. 121.

842 Hertle, 1996b, p. 121.

843 Stephan, 1994, p. 256.

844 Thus a *Financial Times* journalist interviewing Friedrich Workuka, the managing director of Robtron, reported that, 'like nearly all managers of state enterprises, his enthusiasm for the market economy was not all that new [...] But until recently it was something he could voice only in the privacy of his own home.' Callinicos, 1991, p. 55.

By early November, dozens of managers followed the lead of Heinz Warzecha, the director of an engineering *Kombinat*, in agitating publicly for 'radical economic reform.' The contours of proposed reform were given shape at the SED's central committee meeting of 8–10 November. Some of the more arresting contributions, and certainly those that most exercised those present as well as historians since, were a number of frank appraisals of the country's current economic plight by politburo members Schürer, Jarowinsky and others. Schürer, for example, confessed to the assembled Party nobility that the economy had been heading towards bankruptcy, with 'ever more taut and unrealistic plans' and mounting foreign debt.⁸⁴⁵ Krenz followed this up with a warning that in this context political miracles could not be expected: 'the balance of payments situation [...] sets tight boundaries, it limits us in regard to political decisions that should be required.'⁸⁴⁶ Of equal interest, however, were a series of less well-known contributions proposing economic reform. Given that only a month earlier Honecker had still been at the helm and that the make-up of the central committee had not changed greatly, there was a striking lack of support for a continuation of command-economic structures. The tone was set by reformers such as Modrow.⁸⁴⁷ The main demand was for *Eigenverantwortung*, or self-responsibility, meaning that power and risk be transferred from the central authorities to the enterprise level. Praising 'the mobilising power of the principle of *Eigenverantwortung*' Günter Ehrensperger, a senior official in the central planning apparatus, argued that the existing rules whereby the *Kombinate* retain the bulk of profits made in excess of plan targets be taken much further; that decentralisation and the devolution of power to enterprise managements be the pivot upon which further reform should rest. The existing 'system of steering, planing and economic accounting' should be 'fundamentally questioned and radically transformed,' with the aim of establishing 'a market-oriented socialist planned economy.' As the active component of this last phrase suggests, a second plank of the reformers' case was market reform. *All* firms should be oriented first and foremost to the market, indeed to the *world* market, argued Rudolf Winter, general director of an engineering *Kombinat*. Winter and Ehrensperger both stressed that East German enterprises must be given the opportunity to 'participate fully in the international division of labour,' an aim that required that the Mark be made convertible and that cooperation with western firms, including joint ventures, be expedited. These proposals found the support of senior political leaders, notably Schabowski and Modrow. The latter came up with the remarkable statement that reform must centre on the 'comprehensive economisation of the entire economy [*Ökonomisierung der Volkswirtschaft*], indeed, of our entire society.' Unlike the 'economisation of society' in the USSR under Stalin, Modrow's proposal was that 'all economic relationships become money-commodity relations,' and that decision-makers be guided more than ever by the questions 'How much does it cost?' and 'What does it earn?' To this end, Modrow argued, the *Leistungsprinzip* – the principle that 'performance' should be the criterion whereby individual actions are judged – should be applied to all 'economic units,' whether enterprises or workers. The policy of subsidising basic goods, he further proposed, should be fundamentally reconsidered. Taken together, these ideas formed a third and final plank of reform: that wages be determined by 'performance,' to use

845 Hertle and Stephan, 1997, p. 385.

846 This and the following references are from transcripts archived in BA SAPMO, SED Parteiarchiv.

847 Modrow, like many of his peers, can be best described as a 'pragmatic reformer.' In the terms of the former SED member and PDS leader Michael Brie (interview): although 'not a reformist, Modrow knew that reforms were necessary.'

Modrow's term, or – as Winter put it more candidly – that differentials in basic pay and bonuses be ratcheted up.

For the most part, the thrust of the case outlined by Ehrensperger, Modrow *et al.* received the backing of politicians and business leaders. A consensus existed to the effect that the major part in economic decision-making should be handed to the market, that labour relations should be made more 'flexible,' and – albeit with louder voices of dissent – that social spending be slashed. There was also wide agreement that opportunities for attracting foreign capital and know-how and for marketing abroad had to be widened: in several industries, some of which were detailed in chapter seven, a skilled, low-wage workforce already functioned as an 'extended workbench' for West German firms, and the GDR's political and business leaders were well aware that major West German firms such as Siemens and Volkswagen were actively considering expanding their operations there.⁸⁴⁸ Together, these reforms were seen as the best (or least worst) means of forcing East German industry to raise productivity to world market standards. Unification with the FRG did not come into question: SED leaders, as Chris Harman has put it, were determined to 'preserve their own position as the political mediators' between East German capital and the world economy.⁸⁴⁹ The only serious debates, from mid-November onwards, concerned the speed of the change and whether some loosely defined 'Third Way' of 'market socialism' – as propounded by the SED⁸⁵⁰ – or full-blown privatised market capitalism should be the goal.

Dilemmas of democratisation

The new economic strategy, as adumbrated by Modrow and others at the central committee meeting, was widely supported in the SED but its success depended upon two crucial political conditions. The first of these was that the border would remain reasonably tightly controlled, in order that a large wage gap with the FRG and a protected domestic market could be maintained. The second was that workers accept the imposition of 'flexibility' (insecurity), low wages, unemployment and reduced welfare. Given the ever-expanding (and increasingly working class-based) movement on the streets and the growing indications that revolution was entering the workplaces too,⁸⁵¹ the difficulties that implementing the reform package would face need hardly be spelt out. They were vividly summarised by Krenz in his warning that 'a repeat of the situation that developed in Poland with Solidarnosc must be prevented.'⁸⁵²

The underlying problems posed by an alienated workforce and mistrustful populace were not exclusive to the GDR, as Krenz's remark reminds us. Indeed, it need scarcely be said that such themes are not unique to the STEs; but the form they took was in certain respects distinctive, and a brief digression would be useful, before we return to the issue as it faced the Krenz-Modrow regime.

848 Nakath and Stephan, 1996, p. 219.

849 Harman, 1990, p. 23.

850 Modrow's phrase was 'no planning without the market but no unplanned market economy'. Brunssen, 1998, p. 112.

851 The best introduction to this 'unknown face of the GDR revolution' are the articles and documents in Gehrke and Hürtgen, 2001. See also Dale, 2004.

The rulers of Eastern Europe had long faced a dilemma. Economic reform depended upon the cooperation of classes of the population that were pressing for civil liberties and expanded political participation. Yet the Communists presided over structures that precluded the classic bourgeois means of containing these demands. As Dietrich Rueschemeyer, Evelyn Huber Stephens and John Stephens suggest, because their control over the means of production was predicated upon their ownership of the state, which entailed a comparatively direct involvement in the management of the production process, their position was in certain respects analogous to that of labour-repressive landowning classes – ranch owners in Latin America, for example.⁸⁵³ Ruling classes that depend upon repressive methods of labour control are typically the fiercest opponents of the formal inclusion of the lower orders into the polity. An additional, critical problem faced by the STEs in this regard, as Cliff has argued, was

the fact that the state is the repository of all the means of production, is the centre of educational and cultural organisation, means that all criticism, of whatever aspect of the system, tends to concentrate towards the centre. Hence state capitalism by its very nature, unlike capitalism based on private property, excludes the possibility of wide, even if only formal, political democracy. Where the state is the repository of the means of production, political democracy cannot be separated from economic democracy.⁸⁵⁴

When Stalinism was in its infancy such obstacles to the incorporation of the masses did not matter. Steep ascent industrialization required a highly repressive strategy designed to yoke a muzzled workforce to the defence and accumulation of the national capital. As Khristian Rakovsky wrote in 1930, a central plank of the Stalinist strategy was the attempt to ‘jump directly to super-American tempos – by putting pressure on the working class’.⁸⁵⁵ Although highly effective in certain respects, intensive repression also resulted in serious inefficiencies and contradictions. Stressed and maltreated workers tend to produce shoddy goods, leading to dislocations of production further down the line and to frustrated consumers (and planners). As the STEs developed, significant sections of the production process became more skilled and workforces changed. In the USSR, writes Callinicos, ‘[t]he manual working class became an increasingly stable, self-reproducing group, no longer recruited from peasant immigrants and possessing rising levels of skill and education’.⁸⁵⁶ Meanwhile, the white-collar working class expanded more rapidly still. Cities, especially large ones, grew swiftly. Rising levels of personal consumption characterized the European STEs from the 1960s. Already strongly positioned in terms of ‘tacit power’ on the shop floor, workers tended to become more discerning and demanding. In Kolakowski’s words, the less the working class ‘feels to be violently torn out of its “natural” condition, the more adapted to industrial life, the more educated, the more open to the variety of life, the greater its ability to develop a class consciousness and to resist exploitation.’⁸⁵⁷ Such social changes, Callinicos observes, ‘created a literate and sophisticated population impatient with the lies, distortions and platitudes served up by the official media.’⁸⁵⁸

852 Krenz in conversation with Gorbachev, in Hertle, 1996a, p. 477.

853 Rueschemeyer *et al.*, 1992, p. 295.

854 Cliff, 1964, p. 319.

855 Rakovsky, 1981, p. 33.

856 Callinicos, 1991, p. 47.

857 Kolakowski, 1971, p. 58.

858 Callinicos, 1991, p. 47.

Partial solutions to the dilemma were attempted in the USSR and Eastern Europe with the aim of encouraging workers to perceive themselves as 'stakeholders' in the accumulation process and of stimulating intellectual labour by the partial liberalisation of information flows and the freeing of research from dogma.⁸⁵⁹ 'In order to move on to an intensive growth path,' as Howard and King portray the motives involved, 'there had to be greater scope for initiative, which required more secure conditions and an increased supply of consumer goods to enhance incentives as well as provide legitimacy for the more civilised dictatorship.'⁸⁶⁰ Thus, Khrushchev's reforms reduced levels of direct political coercion of labour in favour of a more supple framework of economic incentives, and gave managers and the 'intelligentsia' greater security.⁸⁶¹ A similar rationale informed periodic bouts of cultural and political liberalisation and various attempts to implement corporatist 'social contracts' throughout Eastern Europe, as discussed in previous chapters.

In the 1980s these traditional arguments for political liberalisation were being supplemented by others, related to economic decline and the 'pull of the West'. In their discussion of democratisation in economically stricken countries throughout the 'Second' and 'Third' Worlds, John Walton and David Seddon have concisely summarised three of these:

First, debt and austerity produce a *partial state breakdown*. The degree of sacrifice required by structural adjustment goes beyond the effective limits of patronage and coercion practised by authoritarian governments. On one hand, the state loses the financial capacity to ingratiate supporters and bureaucratic retainers through subsidies and favors. [...] On the other hand, austerity policies in the form of reduced income and consumption require cooperation from the large majority of non-elite, non-patronized sectors if they are to work. [...]

Second, *neo-liberal ideology* propagated by the IMF, banks, lender governments, and economic experts favors weak, non-interventionist states in the [Second and Third Worlds]. Liberal democratic governments are best because they dilute state power to a level acceptable to diverse coalitions, just as they give greater power to the free play of markets.⁸⁶²

Finally, they add, democracy has steadily come to be perceived as a more stable political environment for accumulation: investors have come to 'prefer stable democratic countries safe from the prospects of expropriation or sudden changes of governments and their guaranties.'

In addition to these arguments, elites in Eastern Europe in the 1980s could also point to cases of successful democratisation – in Southern Europe and Latin America, followed by Hungary and Poland. In the 1980s the whispers could be heard of regimes learning from others that the basic class division upon which they rested, and even the positions of most of their number, need not be jeopardised by political liberalisation. For example, the Hungarian leadership solicited advice from Spanish politicians on how to effect a transition from one-party rule to parliamentary democracy without catalysing radical mass

859 Löwenthal, 1976, pp. 86–94; Loeser, 1982, p. 119.

860 Howard and King, 1992, p. 373.

861 Filtzer, 1992.

862 Walton and Seddon, 1994, pp. 334–5. For a similar argument see Hoogvelt, 1997.

movements.⁸⁶³ Similarly, and to return to the narrative, Egon Krenz was no democrat but was forced to take seriously the question of political reform. In deliberating over the issue he was able to learn from others. I wonder, for example, whether he listened to the counsel of General Jaruzelski upon his visit to Poland on 2 November. Jaruzelski, who was under no suspicion of believing in democracy as a *principle*, advised Krenz in no uncertain terms that the *nomenklatura's* basic class aims could be advanced by democratic reform. Just as *glasnost* could help to advance the case for *perestroika*, democracy could prove to be an indispensable means of selling the pain of market reform to a sceptical population. According to the transcript, Jaruzelski said to Krenz:

As a result of major economic problems we have had to face difficult experiences. I'm thinking of December 1970 and August 1980. We undertook a series of attempts to reform, but these ended in failure. The obstacle was in each case our population. The Party, the government, was not in a position to win the majority to accept unpopular decisions. However, these decisions, now being carried out by the current coalition government, are being accepted fairly quietly, even though living standards are worsening. Strikes are rare. This shows that the population places greater trust in this form of government.⁸⁶⁴

'In addition,' he pointed out, 'with this government we are more likely to receive western assistance.'⁸⁶⁵

The crushing defeat of the PCP earlier in the year can hardly have impressed Krenz. Yet the SED was in a markedly worse position than the PCP had been. For one thing, the latter had dealt a huge blow to *Solidarnosc* in 1981, following which the economic policy of both Party and opposition gradually converged. Eventually, the words of *Solidarnosc* leaders came to sound surprisingly like those of their former prisoners, enabling the economic policies of the latter to gain credibility. As Timothy Garton Ash has observed, if *Solidarnosc* leaders

now appealed to the workers – "Don't strike! Accept factory closures! Take a real cut in wages!" – they had a better chance of being listened to than anyone else, just because the workers knew that these men, above all others, had fought for their rights over the last ten years.⁸⁶⁶

By contrast, the SED was *only now* facing a radical *and rising* mass movement. Given that crushing it was not a viable option, could its leaders be rapidly recruited to cooperate with the SED in the difficult task of

863 Huntington, 1993, p. 127. Spain is widely seen as a classic case of 'negotiated transition' to democracy, centred on a 'class compromise' in which parliamentary democracy, including the legalisation of the Communist Party (PCE), was offered to the PCE, other left parties and trade unions in exchange for the commitment to drop their opposition to the monarchy and to the privileges of church and army, to support wage restraint, acquiesce to austerity measures and abandon claims for the return of funds that had been sequestered by the fascist state. The resulting 'Moncloa Pact' served to shore up the structures of Spanish capitalism and to reassure the less democratic sections of the ruling class that democracy would not mean an attack on entrenched power and privilege. The process enabled key sections of the old elites to be integrated into the new regime, and the state apparatus witnessed a high degree of personnel continuity. See Aramberri, 1979; Maravall and Santamaria, 1986.

864 Archived in BA SAPMO, SED-Parteiarhiv. Elsewhere, Jaruzelski was even more to the point: '[W]e tried economic reforms time and again. But we always met with public resistance and explosions. It is very different now. Now with a government that enjoys public confidence, it has become possible to demand sacrifices.' In Haynes and Hulan, 1998.

865 Although, he sighed, 'at present the West has only made promises.' Jaruzelski's advice was rounded out and qualified, later the same day, when Krenz met with the Polish prime minister, Mieczysław Rakowski. The *strategy* of negotiating with the opposition at a 'round table' and of organising elections to parliament, Krenz now heard, had been a good one, but the Polish Communist Party had been too gentlemanly in its electioneering *tactics*.

866 Callinicos, 1991, p. 60.

restoring stability? Could they be persuaded to agree to the terms of democracy and austerity laid down by the SED? And even if agreement could be found, would their appeals for austerity be as respected amongst workers as those of Kuroń and Michnik in Poland? These were questions that only now, in early November, began to be considered.

If these contrasts with the Polish situation highlight the dilemmas faced by proponents of democratisation in the GDR, they were minor compared to a second difference. In Poland, as elsewhere in Eastern Europe, the challenge to Communist Party rule came largely from within, but in the GDR the very existence of the state faced the implicit challenge of the FRG's claim to sovereignty over its territory. Both market reform and democratisation posed graver threats to the positions of politicians and company directors in the GDR than anywhere else.

Rarely can the metaphor of devil and deep blue sea be more apposite than in describing the predicament of the SED leadership in the first weeks of November. Democratisation was, initially in the form of 'dialogue' with the Citizens' Movement (CM), coming to be seen as an inescapable necessity if the demands of political stability and economic austerity were to be met, and yet it bore the danger of putting the future not only of the Party but also its state in the hands of an aroused citizenry. Marketisation and closer economic cooperation with the West were seen as vital for economic resuscitation and yet these threatened to put the country's fate even more firmly in 'enemy' hands. And both of these strategies were only just receiving their first full discussion at the central committee plenum of 8-10 November when the Wall crumbled, and with it the foundations upon which they were based.

The 'phase of the General Directors'

By effectively closing down authoritarian alternatives to the reforming administration under Hans Modrow, the fall of the Wall confirmed the strategy of reform but also, paradoxically, undermined its long-term viability. In retrospect it is apparent that with border movements all but uncontrollable, protecting the domestic market and keeping wages down would be a Sisyphean enterprise. Infrastructural links between the two Germanies were proliferating, with new border crossing points, air links, bus routes, and telephone lines. As cross-border movements soared, so too did the sale of Western newspapers and other commodities in the East, boosting the economic weight of the Deutschmark and the black economy. In the 'official' economy, meanwhile, managers such as Dieter Voigt, General Director of Ifa, the vehicles *Kombinat*, began to build on existing cooperative ventures. Already on 4 December, Ifa and Volkswagen announced the first FRG-GDR joint venture. Still assuming that the GDR would remain a protected market, they planned to jointly produce a range of cars largely for the domestic market and including existing East German models for an initial period. In Voigt's words the intention was to 'control the East German automobile market, together with VW.'⁸⁶⁷ Another motive was wages: as VW's director of finance put it,

⁸⁶⁷ *Der Spiegel*, 12/1990, p. 142.

'[w]hy go to Korea when wage levels next door are only a quarter of West German levels?'⁸⁶⁸ The VW-Ifa announcement was followed by link-ups between Interflug and Lufthansa, between Robotron and a series of Western firms, and a torrent of announcements by West German firms of smaller – but politically significant – investments.

In economic policy-making new tones could now be heard, with SED leaders appealing to citizens to 'harness egoism' and promoting the 'socialist spirit of free enterprise.'⁸⁶⁹ Changes speeded up, with the Planning Commission scrapping half of its compulsory production targets for enterprises and the announcement of swingeing cuts in the subsidisation of basic goods (albeit usually under the euphemism of strengthening 'performance incentives' and the 'stimulating role of wages').⁸⁷⁰ Although the politburo puzzled for a while over how to enforce the *Leistungsprinzip* without risking mass unemployment, others were already sketching out a simple solution: if the state withdraws from directing business activity it would no longer carry direct responsibility for social problems. In December, a working group in the Ministry of Finance proposed a package of reforms that could achieve just this end, including restrictive monetary policy and a privatisation initiative involving the selling of company shares to citizens.⁸⁷¹

In the meantime, company directors were given a free hand to restructure without the obligation to consult with their employees. Managers began to prepare their companies for direct competition or partnership with Western enterprises – and where 'rationalisation' drives involved the undermining of workers' conditions, as they frequently did, the justification was typically phrased in the form 'it's unavoidable: the market is coming.' For some, such as Workuka of Robotron, greater freedoms to sack workers were imperative – for them, the proposal that the GDR could steer a 'Third Way' between socialism and capitalism was an irritation, given that rapid marketisation was the order of the day.⁸⁷² Although Workuka's views were not yet those of his class as a whole, in their bullish tone they reflected the fact that the central authorities were yielding powers to enterprise managements and yet encouraging the latter to maintain, as always, their role in policy formation. This elevation of the powers of management is encapsulated in Christian Matthes' description of the five-month Modrow government as the 'phase of the general directors.'⁸⁷³

Market reform in some guise or other – whether of the West German 'social market' variant or as an element within a 'Third Way' – was a consensus position amongst the parties of the SED-led 'bloc' and also within the CM organisations. Although most CM activists were wary of the socially polarising effects of the market, and a good number demanded that the 'right to work' be enshrined in any new constitution, most took it for granted that some form of marketisation was either unavoidable, desirable or both.⁸⁷⁴ They accepted the consensus view of both German establishments that East Germany closely integrated into the

868 Damus, 1990, p. 70

869 Modrow, in Selbourne, 1990, p. 216.

870 Neues Deutschland, 29.11.89.

871 Neues Deutschland, 14.12.89

872 Callinicos, 1991, p. 55.

873 Felix Christian Matthes, in Roesler, 2002.

874 In this, oppositionists were similar to their counterparts elsewhere in Eastern Europe. See e.g. Wainwright, 1991.

world economy, with a convertible Mark, and that the central plan should yield to enterprise autonomy. The largest group, New Forum, was relatively quick to call for a free market in property, for large-scale privatisation and the carve up the *Kombinate*, and for cuts in subsidies for basic goods.⁸⁷⁵ The Social Democratic Party, from its foundation in July 1989, spoke up for a 'social market economy,' albeit with strict anti-trust laws.⁸⁷⁶ 'Democracy Now' advocated market reform and the reintroduction of private enterprise, but insisted strongly that the free market be tempered by workforce consultation in enterprise decision-making. For its part, 'Democratic Awakening,' in spite of its initial opposition to attempts to introduce capitalism in the GDR, soon came out in support of the 'social market,' and campaigned for cuts in subsidies on basic goods.⁸⁷⁷ The only group that did not proclaim its faith in the 'social market' and continued to describe itself as socialist was the 'United Left.'⁸⁷⁸

A similar ambivalence characterised the attitudes of the CM groups to representatives of Western capitalism. They condemned West German politicians and business leaders for their eagerness to make deals with their discredited GDR counterparts. A telling example was the expression of concern by New Forum 'that countless [Western] firms and institutions are entering agreements with representatives of "the old structures within the obsolete state set-up."' ⁸⁷⁹ NF's objection derived no doubt from its members' experiences of oppression under 'the old structures.' However, it may also have betrayed a hint of jealousy. For NF was itself attempting to curry favour amongst precisely the same community, and only a few weeks earlier several West German business leaders, including Tyll Necker, the head of the employer's federation, had attended its economics conference. The other CM groups, particularly the SDP and Democratic Awakening, were not far behind; they set about courting the West German business class – including the seemingly ubiquitous Otto Wolff von Amerongen.

The spectre of 'chaos'

In retrospect the months following the Wall's fall can appear simply as the run-up to German unification. Surely, one would think, increased cross-border traffic together with a popular longing for West German capitalism, not to mention pressure from Bonn, made German unification an immediate and irresistible prospect. 'But it was not,' as Philip Zelikow and Condoleezza Rice – neither of whom could be suspected of a fondness for Modrow's GDR – have described.

875 *Neues Forum*, 1990.

876 Czerny, 1996, p. 88.

877 Neubert, 1990, p. 18.

878 Even in the UL there was a strong 'market socialist' current. One UL member estimated that 'most people in the United Left say we need some degree of market and foreign capitalists.' In Harman, 1990, p. 71.

879 *Der Spiegel*, 18.12.89, p. 21.

Even after the first popular voices for unification were heard [...] on November 19 in Leipzig, many East Germans still thought that the GDR should remain a separate sovereign state. Even those who favored the idea of eventual unification wanted to retain 'socialism.'⁸⁸⁰

Modrow's government accepted that reform of the old structures was inevitable but believed itself to be in a position to arbitrate the birth of the new. Initially the talk was, vaguely, of the 'revolutionary renewal of socialism in the GDR.' Gradually, a strategy crystallised around the hope that new freedoms (notably of travel) together with the promise of parliamentary democracy would appease the protest movement, allowing the regime time and space in which to broaden its power base – particularly by co-opting the CM groups⁸⁸¹ – and to restructure. Reforms would also, it was hoped, facilitate the extraction of concessions from the FRG. In a remarkable speech to leaders of the 'Nasi' (the renamed Stasi) in late November, Modrow suggested that political reform be sold to Bonn – specifically, that the SED cling on a while longer to its monopoly of power, for 'when there is, as it were, nothing more left' with which to negotiate, 'then we truly are reduced to beggary.'⁸⁸²

Critically, for this strategy to succeed, goodwill was required from three groups: the mass of the population, the CM and the West German government. With regard to the first of these, SED leaders (once again) found themselves playing a game of 'heads you win, tails I lose.' Democratic reform, they recognised, was necessary for stability to be restored, yet each promise of political liberalisation only boosted the confidence of an aroused citizenry to demand more. But the alternative – heel-dragging – inflamed protest too. In early December a series of revelations of ruling class corruption as well as file-shredding by the Nasi catalysed a further radicalisation on the streets. Banners now called for 'Manual labour for bureaucrats!', 'Minimum wage for the Politburo!', and 'Privileged of the world, abolish yourselves!' Enraged citizens surrounded and occupied Nasi headquarters and formed 'Citizens Committees' to monitor its activities and prevent further file-shredding. Meanwhile, new layers were joining the movement, with prisons erupting in revolt and a wave of industrial action involving tens of thousands of workers.

Given the rapid erosion of trust on the part of the populace, collaboration with the CM and Bonn was all the more vital. With 'social order' breaking down, the SED sought to persuade CM leaders to cooperate in its restitution. The calculation was, as one journalist put it, that 'a weak opposition may prove to be co-optable.'⁸⁸³ Lacking reliable 'sticks,' the tactic centred on a combination of 'carrots and spectres'. The first spectre that SED leaders in their internal discussions hoped would persuade the CM groups to cooperate with them was that of full-blown market capitalism, a threat that was already looming and which threatened to close off routes towards a 'social and ecological' participatory democracy. The second was unification, which threatened to scupper the plans of both SED and CM for the development of alternatives to capitalism à la FRG. The third and most proximate spectre was that of social 'chaos.' In early December the SED whipped up a mood of panic, with warnings that 'spontaneous actions' such as the occupation of

880 Zelikow and Rice, 1995, p. 104.

881 On this, see Dale, 1996, 2004.

882 Stephan, 1994, p. 257. Even the leaders of the other parties in the SED-led 'bloc' had, Modrow added, agreed to this tactic.

Stasi buildings would give rise to a lynch atmosphere. Simultaneously, a talisman was offered to the CM by which these spooks could be kept at bay, namely a place for its representatives at what the regime professed (and the CM hoped) would be historic 'round table' negotiations. Although many of the founders of the CM groups were sceptical – fearing, as one of them put it, that 'the round table would be a means of *incorporating* the movement, of transferring the problems raised on the streets away from the grassroots and into a kind of political shadow boxing where they would be blurred rather than clarified'⁸⁸⁴ – most felt that a taste of institutionalised political influence was preferable to none. In this respect, the regime's calculation paid off. Thanks to support from the CM the Modrow government weathered the crisis of early December.

To summarise the argument, the Modrow government during its five months in office steadily lost the trust of the masses whilst winning that of the CM leaderships. But what of the third main collective actor, the West German government? Did it assist its Eastern counterpart? Or did it set out to undermine the GDR? Already in the summer, as detailed above, a degree of ambivalence was observable in Bonn's stance. In the late autumn this continued, albeit with important differences. On the one hand, in the weeks after the fall of the Wall Kohl began to set a new agenda. When East Berlin issued a proposal that the two Germanies work towards establishing a federation, Kohl responded eleven days later with a cleverly designed 'Ten Point Plan' that embraced Modrow's suggestion of federation but repositioned it as a mere stepping stone to unification. 'We do not want to stabilise conditions that have become untenable,' he declared, insisting that the SED introduce economic reforms.⁸⁸⁵ Drawn up by his closest advisors, avoiding input from Genscher and without consulting with Washington, London or Paris, Kohl's plan was an adroit and forceful diplomatic move. Announced on the very day that the SED politburo was deliberating over how to take its plans for federation forward, Kohl's intervention seized the initiative from East Berlin.⁸⁸⁶

On the other hand, this revision of *Ostpolitik* followed months of ambivalence and even confusion.⁸⁸⁷ The governing parties in Bonn were wary of making overhasty diplomatic moves that could cause upset in Washington, Moscow or the capitals of EU partners. They were also wary of the East German public. Although as citizens and taxpayers the latter was seen as a potential prize, and perhaps also as future CDU and FDP voters, in their guise as emigrants and collective actors they were viewed with anxiety and even suspicion. Thus, when the Wall fell the Chancellor's reaction was one of concern as well as hope, and in his public comments he was careful to warn East Germans not to follow 'radical slogans and voices'.⁸⁸⁸ 'I have always emphasised that I see every form of radicalisation as dangerous,' he assured Krenz on the same day, adding sombrely that '[w]e needn't discuss what sort of dangers might be involved; anyone can easily work it out.'⁸⁸⁹ A few days later Kohl sent the CDU treasurer Leisler-Kiep as his envoy to East Berlin for discussions with government representatives. According to the recollections of an official present and of

883 *taz* Journal, 1990a, p. 152.

884 Interview with Klaus Wolfram.

885 The 10 Point Plan is reproduced in Rotfeld and Stützle, 1991, pp. 120–3.

886 See politburo discussion of 28.11.89, in BA SAPMO, SED-Parteiarchiv.

887 See for example Hertle, 1996a, p. 558.

888 Teltschik, 1991, pp. 12, 20.

the East German transcript, Leisler-Kiep, whilst greeting the SED's change of course and encouraging further movement towards market reform, also made it clear that unification was not seen as a realistic proposition; indeed, 'it was not desired by a majority of West Germans and absolutely not by GDR citizens.'⁸⁹⁰

Such symptoms of a continuation of at least aspects of Brandtian *Ostpolitik* did begin to fade after the announcement of the Ten-Point-Plan. But throughout December, Bonn's improvised *Ostpolitik* remained caught in a contradiction. Unification was now squarely on the agenda. Equally, however, the dangers of rapid unification, the threats it posed to the FRG's relations with foreign powers and to the domestic stability of both Germanies, were becoming ever more apparent. Although the Chancellor privately warned his advisers that unification might take another five years, the fear grew that if it were to occur more rapidly, economic disaster could result.⁸⁹¹ Consequently, although Kohl did not seek to bolster the SED regime, he remained at pains to maintain a working relationship with both Krenz and Modrow, and reassured them, as Teltschik told Jürgen Nitz in December, that his government was as keen as they were that no 'artificial fires' be lit in the GDR.⁸⁹² Even as he stood in Dresden, acclaimed by crowds waving West German flags and bidding for a playmaking role in GDR political life, Kohl appeased his guests by emphasising that the road to unification would be 'long and stony.'⁸⁹³ On this pre-Christmas visit to East Germany Kohl also held out the promise of substantial financial assistance to a beleaguered Modrow and, in Wolfgang Meyer's recollection, declared during a meeting with the GDR premier that 'there is no sense in which any contribution to the destabilisation of the GDR would be in either my or our interests.' As late as 19 December Kohl was still giving 'the impression that he was seeking to stabilise' Modrow's government which, despite it's the dwindling trust of the public, was seen 'at the time as the only stable factor in the GDR.'⁸⁹⁴

Elite laundering

The activities of the *nomenklatura* during the winter of 1989–90 have been concisely summarised by Hans-Jürgen Fischbeck, a founder member of *Democracy Now*. It was, quite simply, engaged in 'reorganising itself outside the traditional Party format and in appropriating state property.'⁸⁹⁵ Before examining the first of these points, let us look to the second – the way in which those with wealth and power set about restructuring their finances and positions in order to minimise the threats and maximise the opportunities of reform.

889 Stephan, 1994, p. 245. For a similar emphasis in Kohl's exchanges with Gorbachev, see Hertle, 1996b, p. 261.

890 Nitz, 1995, p. 287, also pp. 174–9.

891 Stent, 1998, p. 98. Zelikow and Rice (1995, p. 144) report that in November Kohl believed that he would be lucky if unification occurred within five or ten years but this had shortened to three or four years by late December. In January, apparently, he was still speaking publicly of a five year time-span (p. 159).

892 Nitz, 1995, p. 184.

893 Meyer, 1995, p. 92.

894 As Hans-Jürgen Fink has described (1990).

895 Haug, 1990, p. 398.

As elsewhere in Eastern Europe this process of '*nomenklatura* privatisation' was a murky one, with much that occurred being hidden: some of it illegal, some involving the exploitation of loopholes, and a lot relying upon insider information. A detailed analysis is beyond the scope of this work but a brief catalogue of some of the methods involved will serve to indicate the general form of the process. First, the smartest (or greediest) of those with large East Mark savings were able to place them in promising areas, typically real estate. The Modrow government was quick to liberalise markets in land and property. Thousands of functionaries, the best known of whom was the CDU government minister Günter Krause, exploited the resultant opportunities with alacrity, buying up land and scooping luxury properties at dream prices of three or four marks per square meter.⁸⁹⁶ Second, some of those with authority over official accounts were able to exploit their positions, siphoning funds into their own newly-established firms or bank accounts. Those in the right places and with the right connections and knowledge could transfer vast sums with a few strokes of the pen. Hundreds of millions of Marks – and some estimates go far higher than this – were embezzled, spirited away or laundered. Given that their operations were in any case shrouded in secrecy, Stasi officials seem to have been particularly adept at transforming state into private capital, with whole sections 'going under' and resurfacing as small business owners. So too were the managers of KoKo enterprises who, according to Peter Ferdinand Koch, were able to carve up a good deal of their assets amongst themselves.⁸⁹⁷ These activities began towards the end of 1989 and continued apace in 1990 under the coalition government of Lothar de Maizière. Loopholes in the 'State Treaty' that unified the currencies of the two Germanies enabled functionaries to convert enormous sums of GDR Marks 'transfer roubles' into Deutsch Marks at parity, by illicit methods – for example, through the 'export' to the Soviet Union of goods that existed only in accounting books. Of those that deployed illegal means to launder soft money into hard or bureaucratic authority into private property, some were caught – most famously Schalck, who in early December was caught fleeing the country with a prince's ransom in hard currency – but many others doubtless evaded detection.⁸⁹⁸ 'In this way,' as Martin Flug has described, thousands of representatives of the old regime, including the "'dissolved" Stasi, became winners of German unity through the back door.'⁸⁹⁹

The alchemy that saw 'old' wealth and power transmuted into investments in the embryonic new Germany was an important and often underestimated aspect of the transition period. What mattered more, however, than the appropriation of *accumulated* property was control over the *future* generation and distribution of wealth. Who would control the state, the collective farms, the *Kombinate*? Who would determine the direction and pace of reform, and the terms of confederation or unification with the FRG? For those in existing positions of power to be able to influence the answers to these questions a major reorganisation of the form of rule – the second point noted by Fischbeck – was inescapable. Although a complex process, the major lines of restructuring emerged clearly in the course of the winter. Control over

896 Modrow, 1991, p. 45.

897 Koch, 1992, p. 141; Worst, 1992, p. 143. Some Stasi officers had been trained observers of the managerial methods of the Western 'enemy' and were now able to put these to their own purposes – see e.g. Riecker *et al.*, 1990, p. 105.

898 *Frankfurter Allgemeine Zeitung*, 4.8.94. Despite becoming the focus of unparalleled popular wrath in early December, Schalck himself, no doubt thanks to his connections to senior West German officials and business leaders, negotiated his personal transition to the new Germany with considerable success.

899 Flug, 1992, p. 26.

the levers of political power was shifted from the SED to the state executive. In the economic sphere, the enterprise managements, as noted earlier, came into their own. The SED's 'bloc,' meanwhile, was allowed to fragment and a pluralist party system emerge. In a nutshell, the Party lost its function as the ligature of the main arteries of power.

As a result of these reforms, the decision that elections would be held in the spring of 1990, and the prospect that the SED – now renamed Party of Democratic Socialism, PDS – may not emerge the winner no longer appeared as a direct threat to the *nomenklatura* as a whole. The prospect was rather of the General Directors emerging from a transition as the managers or even owners of limited companies, of functionaries in the PDS remaining influential players (although losing some ground to their erstwhile allies of the 'bloc parties' and to the CM groups), and of most police chiefs, army officers and state officials remaining at their posts.

To a certain extent, these hopes were realised. Not only was the Modrow administration committed to minimising the degree of 'elite replacement,' so too was its CDU-led successor, and Bonn tended to favour this course of action too. Let us sketch an initial balance sheet of elite replacement for the first two years after the revolution had begun. In the *economy*, to begin with, 70–80 per cent of directors and managers of the *Kombinate* in mid-1991 had been managers before 1989.⁹⁰⁰ In *politics*, it was largely the 'lower nobility' – middle and lower officials – who were able to remain active.⁹⁰¹ Although the PDS itself did relatively poorly in the elections of March 1990, two of its 'bloc parties' merged with the West German CDU and FDP. As a result, hundreds of the latter parties' representatives in the German parliament and regional assemblies had been 'bloc party' activists or functionaries during Honecker's reign – and some of these had enjoyed 'far more political influence than the average SED member.'⁹⁰² Thus, although CDU leaders such as Kohl liked to accuse the SPD of supping with the PDS, 'plenty of former GDR bigwigs have found a home in his own party,' as *Der Spiegel* gleefully observed.⁹⁰³ In the *army*, the vast majority of senior officers were retained, albeit at one rank beneath their existing station. As to the *administrative elite*, some took the opportunity of early retirement while others engineered their transfer to offices with greater prospects. Throughout the state apparatus personnel were permitted to 'cleanse' their files of incriminating records and documents. 'The bulk of the administrative cadre' in a study by Klaus Koenig, 'remained, for a period of time, largely unaffected by the process of regime transition.'⁹⁰⁴ In the *legal elite*, 78 of 1,300 judges were forced to resign by June 1990, but the remainder were allowed to 'cleanse' their files pending re-election.⁹⁰⁵

As the 'communist' elites filed across their hastily constructed bridge to capitalist democracy two striking phenomena could be observed. One was the readiness with which most of them shed the

900 Dennis, 1993 p. 123.

901 Thomas Baylis, cited in Yoder, 1999, p. 51.

902 According to a Stasi report on an LDPD functionary who, following unification, became the Economics Minister in the Thuringian state government. *Der Spiegel*, no. 37, 12.9.94, pp.26–7.

903 *Der Spiegel*, no. 37, 12.9.94, pp.26–7.

904 Koenig, 1993, p. 387.

905 Schneider, 1992, p. 111; Blanke and Erd, 1990, p. 44. According to Inga Markovits (1995, p. 141), 'It seems that East German judges and prosecutors' followed the Modrow government's invitation to cleanse personnel files 'with a vengeance.'

commitments and trappings of their previous calling. Senior army officers, to give an example that stands for many, would happily exchange the title 'Genosse' [comrade] for 'Herr.'⁹⁰⁶ Managers actively sought partnership with the western 'enemy'. Even most of the SED's membership, more or less eagerly, embraced the institutions of the 'social market' and parliamentary democracy. The second phenomenon of note was that although the transition, to be credible, necessitated the sacrifice of many of those most implicated with the old regime, in the first two years there was surprisingly little 'elite replacement.' It may seem obvious that this was the case during Modrow's reign, but was not at all inevitable or predictable at the time. As the editor of one Berlin newspaper remarked a year on, 'it is quite eerie how the GDR state apparatus was allowed to carry on blithely maintaining its hold on power.'⁹⁰⁷ More striking is the degree of continuation that existed in this respect despite the shifts in political power from the SED-PDS to de Maizière's CDU-led 'grand coalition' and even into the first year of unification. In the long run, however, the East German *nomenklatura* was to effect the transition with far less success, if measured by the preservation of top jobs in state and economy, than its counterparts elsewhere in Eastern Europe. By 1995, according to researchers at Potsdam University, there was not a single eastern German in the 426 top positions of Germany's economy, justice and military, while in the 474 top administrative positions only 12 were to be found.⁹⁰⁸

'Germany, United Fatherland'

To a large extent this long-term failure of the GDR *nomenklatura* was inevitable, given the special circumstance of Bonn's claim to political power in the East. However, the *degree* of failure can be explained in part with reference to the tempo of events in early 1990 that threw the Modrow government's plans into chaos. Its evolving aim, if we recall, was to preside over a slow and orderly transition, guided for the most part by individuals in existing positions of authority within the economy, state bureaucracy, scientific and cultural establishments, that would enable elite replacement to be minimised. Yet success depended upon several crucial conditions: that at least a modicum of social stability would be restored; that the occupying powers, particularly the USSR, would guarantee the *status quo* at least in the medium term; and that advocates of rapid unification would not win the general election. Let us briefly resume the final part of the story of East Germany's revolution by sketching the events and processes that, one by one, shattered the assumptions upon which this strategy was based.

First, in January, against the backdrop of deepening economic crisis and a continued exodus of some 2,000 citizens per day, the rift between government and citizenry widened further. The demonstration movement revived, and in some regions reached new peaks. Critically, its political tone was shifting further towards the demand for unification. As Kohl's advisor Horst Teltschik reported, 'the growing helplessness of the Modrow government was strengthening the popular flight towards the national

906 Peter Chemnitz, in Golombek and Ratzke, 1991, p. 125.

907 Hartung, 1990, p. 60.

908 Thierse, 2001, p. 51.

question.⁹⁰⁹ At the time, let us recall, West Germany boasted a prosperous economy, stable parliamentary democracy and a developed welfare system. Motivated for the most part by aspirations for democracy and self-determination, for honest government, for economic justice and prosperity, increasing numbers of East Germans were coming to perceive unification as the simplest and quickest means of securing these ends. Yet this was not all. January also witnessed the country's most significant strike wave in decades. In the middle of the month continued delays in the dismantling of the 'Nasi' provoked a demonstration to that organisation's Berlin headquarters which turned into a mass storm on the building. As Modrow writes in his memoirs, 'chaos' now threatened.⁹¹⁰ The situation demanded that elections be brought forward, and the immediate inclusion of the CM groups into a new government of 'national responsibility.' By the end of January Modrow was sharing power with former dissidents.

The same period saw the evaporation of the PDS's hopes that Moscow would buttress their position – that its backing would ensure that their side would carry weight in any negotiations with Bonn over the formation of an FRG-GDR confederation (or, later, unification). Gorbachev's team had only recently ordered the invasion of Lithuania, was beset by domestic crises, and was also aware that for similar reasons Modrow's authority was in free-fall. Gorbachev's foreign policy advisor was even able to counsel him that the PDS was now a 'party that *de facto* no longer exists and that has no future,' and that they should therefore deal directly with Bonn instead.⁹¹¹ Rather than attempt to prop up the East Berlin regime as a sovereign state in the Warsaw Pact, Gorbachev, like Modrow, came round to seeing unification as inevitable. Believing, naïvely no doubt, in the genuineness of promises made by Kohl and by leaders of the three other occupying powers that NATO would not seek to expand eastwards, the Russians gave the green light to German unification.⁹¹² In what was an astonishing *volte face*, the SED-PDS now came out in favour of unification. Modrow himself, perceiving that the combination of domestic crisis and Moscow's inclination to find agreement with the Western powers left him little other option, declared in favour of 'Germany, united Fatherland.'⁹¹³ Shortly afterwards, however, and to the mortification of the entire PDS membership, Gorbachev then also acquiesced to the inclusion of Eastern Germany in NATO. This decision 'to leave our fate in the hands of NATO,' as the head of East German espionage, Markus Wolf, recalls, came as a particularly 'brutal shock'.⁹¹⁴

The third blow, accompanying those dealt from 'below' and from the East, came from the West, with Kohl abandoning any final vestiges of support for Modrow's regime.⁹¹⁵ Although in the GDR premier's recollections the Chancellor treated him with great warmth and kindness when he visited Bonn, and although Kohl continued to insist that unification would be a process of equal partners in which 'the GDR would bring essential elements into the unified state,' in reality the tone had changed: a piqued Modrow

909 Teltschik, 1991, p. 111.

910 Modrow, 1991, p. 79.

911 Adomeit, 1998, p. 479.

912 Stent, 1998, p. 225; Zelikow and Rice, 1995, pp. 180–4; Adomeit, 1998, p. 501.

913 Modrow, 1991, p. 119.

914 Wolf, 1998, p. 224.

915 *die tageszeitung*, 13.3.90, p. 7.

was forced to accept that Bonn was now dictating terms.⁹¹⁶ Even as Modrow and Kohl conferred, West German political parties were funnelling support to their newly anointed partners in the East. Unification became the election slogan for the CDU in particular but also for the Western-backed FDP and SPD. Bonn would devote its vast resources to 'modernising' the East, Chancellor Kohl promised; 'blossoming landscapes' lay ahead. With unification, he insisted, 'nobody will face undue hardship'; 'none will be worse off than before – and many will be better off'.

To the surprise of most observers the general election in March brought to power a coalition government led by de Maizière's CDU, a party that advocated rapid unification under the 'annexation paragraph' (§23) of the West German constitution. Although crucial implications of following this route to unification were unpopular even amongst its own voters – notably that it would limit the input of an East German government in the unification process, and would suck the territory into NATO – these were seen as minor disadvantages when compared to the perceived imperative of rapid integration.⁹¹⁷ For de Maizière's CDU and its allies were linked to the West German CDU, and therefore seemed to offer the surest road to unification and prosperity. One placard at a CDU election rally in Leipzig said it all: 'Helmut, nimm uns an der Hand, zeig uns den Weg ins Wirtschaftswunderland!' [Helmut, take us by the hand, show us the way to economic miracle land!]⁹¹⁸ Thanks to the belief in miracles, and above all to the magic wand of Kohl's CDU, its sister party in the East – despite having been the loyal servant of the SED only four months before – was elevated into office with 41 per cent of the vote.

Conclusion

At this stage, with the CDU in power and unification a done deal, let us retrace the main steps of the argument. The USSR under Stalin, it was suggested, developed a complex of structures that were extreme examples of general mid-century trends. These had been singularly conducive to capital accumulation in a backward country, enabling it to build an industrial base, conquer Nazi Germany and establish satellite regimes in Eastern Europe. Similar structures in East Germany, despite initial handicaps, enabled productivity to grow rapidly but rarely at the pace required to catch up with the FRG. In the 1960s and 1970s trade grew apace, and strategies of, first, economic decentralisation and, later, import-led were tried and discarded. As elsewhere in Eastern Europe, increased ties to Western firms and states subtly influenced managers and functionaries. When the Soviet bloc entered crisis in the late 1970s, ideas of furthergoing market reform and limited democratisation began to gain ground, in Hungary and Poland followed by the USSR itself. As a result, as Chris Harman has argued, it did not require a great deal of

916 Nakath and Stephan, 1996, pp. 299–311. 'The Kohls treated me with such kindness and attention,' Modrow recalls (1991, p. 128), 'it was as if I had already been at been at their family home ten times before.'

917 Opinion polls from the spring of 1990 indicate huge majorities in favour of unification being determined by both governments equally and with democratic input from both populations, and for military neutrality. Förster and Roski, 1990, pp. 69–70.

918 Pritchard, 1996, p. 167.

pressure for the edifice of East European “communism” to collapse. The old people at the top [...] raved about betrayal and even on occasions fantasised about telling their police to open fire. But key structures below them were already run by people who, at least privately, accepted the new multinational capitalist common sense[.]⁹¹⁹

In East Germany these processes were complicated by the claims upon its territory by the FRG. The GDR, having gambled on a strategy of import-led growth, accumulated a massive foreign debt that threatened bankruptcy when world-economic conditions worsened. Increasingly, the country was kept afloat economically by Bonn, a fact that, paradoxically, enabled a false sense of security to reign amongst the majority of leaders and officials, and which was a contributing factor to the absence of an organised reformist current. When the conditions underpinning the stability of the SED's rule began to shift and then crumble – with the ending of the iron curtain and the Brezhnev doctrine, the exodus, the protest movement and the ending of Bonn's *Ostpolitik* – most functionaries ‘discovered,’ more or less rapidly, their long-harboured belief in market reform, trade and currency liberalisation and parliamentary democracy. These reforms offered an escape route out of an unpredictable, ‘chaotic’ and escalating crisis. Together with the prospect of unification, they served to demobilise the mass movement and enabled a transition, in the early spring of 1990, to an elite-dominated period of institutional change.

From this position unification was simply a necessity, if transition was to proceed under the control of at least core sections of the existing elite, and with even a semblance of ‘order.’ Nevertheless, it did represent a blow to industrialists whose plans were based upon the country retaining a protected domestic market and was bound to result in a more rapid than expected devaluation of East German capital. Neither the Modrow nor the de Maiziere governments were in a strong bargaining position, given the lack of authority of the former, the growing evidence of the Stasi connections of ministers of the latter, and, above all, the weakness and continued decline of the East German economy. In vain did the GDR negotiators call for weaker industries to be protected (by way of debt relief and wage subsidies) to be written in to the unification treaties, that a moratorium be placed on land sales to West Germans, and that owners of property expropriated between 1949 and 1972 receive compensation instead of restitution.⁹²⁰ Similarly, the suggestion that state assets be disbursed to citizens in the form of shares was thrown out. These proposals were either too costly or incompatible with a free market, the western negotiators explained.⁹²¹ Already during the negotiations over its terms, the unification process was beginning to resemble the takeover of a bankrupt capital by a more powerful rival. But if this assessment is accurate, what sort of takeover would it prove to be? Friendly? Hostile? Or something else entirely? The fact that enormous funds began to be pumped into East Germany from West German taxpayers would indicate a benevolent interpretation. However, as the next chapter indicates, there was more to the economics of unification than that image would suggest.

919 Harman, 1990, p. 66.

920 A clause of this sort, according to most economists, would have benefited growth in East Germany by reducing the number of disputes over tangled property claims (which have in many cases barred investment going ahead).

921 Heneghan, 2000, p. 51. Bonn was equally bullish towards the Citizens Movement: the State Treaty annulled at a stroke virtually all the decisions and initiatives that had been taken by the Round Table.

9. German unification: a 'hostile takeover'?⁹²²

On a railway trip through the *Erz* mountains of Saxony, shortly before German unification, I recall looking out of the window to see a banner on a factory roof. Such sights were once common in the GDR, of course, but the slogan here was new. 'Economic Power Through Unification,' it read. The sentiment expressed therein was, of course, shared by many. The powerful West German economy, it was hoped, would act as a role model and a source of capital for ailing firms in the East. But what sort of 'economic power' would unification bring? And whom would it empower?

In the early years, an optimism that the two halves of Germany would converge was very widespread. Per capita output in East and West was expected to equalise by 1994, the finance spokesperson of the new all-German government told the business paper *Handelsblatt*.⁹²³ In 1992, government representatives, including Kohl, were still predicting successful social and economic unification within 'three, four or five years'. Optimism was not the monopoly of the political class. Economists, though invariably more cautious, mostly shared the conviction that the East would swiftly gain ground. In an influential piece Rudiger Dornbusch and Holger Wolf argued that East-West productivity convergence within fifteen years was at least thinkable.⁹²⁴ Eastern Germany, they pointed out, was in a more favourable position than the other transition economies. It could rapidly assimilate West Germany's financial, legal and social systems, and its stable currency and trade regimes; it would benefit from West German economic expertise and state transfers; and it would receive subsidies for infrastructural and business investment. These factors, coupled with its low-paid but skilled workforce, would ensure that the East would provide the logical location for the expansion of West German firms.

A similar, and more influential, case was put by Horst Siebert, one of the FRG's 'five wise men'. Basing his argument on the neo-classical assumption that, given factor mobility, growth rates will tend to converge, Siebert predicted that eastern German GDP would follow a 'J curve' – a sharply inclined take-off from a transition-induced recession. 'From growth theory and from historical experience,' he reasoned, 'we know that a country with a relatively low capital stock per head initially but with technical skills and innovative potential will have high growth rates.' Siebert warned that initial conditions in East Germany were less advantageous than had been the case in the post-war FRG, but insisted that these were problems *of transition* only.

Although doubts were raised by some economists,⁹²⁵ these sentiments found a very widespread echo. Some even argued that Western Germany would not have to subsidise the East, as 'market reform' coupled

⁹²² For a full development of the argument in this chapter see Dale, 2002.

⁹²³ *Handelsblatt*, 4.10.90.

⁹²⁴ Dornbusch and Wolf, 1992.

⁹²⁵ For example, the German Institute for Economic Research advocated the nationalisation of all large companies, the closure of which would be 'politically unacceptable,' the cancellation of companies' inherited debts, and wage subsidies for firms undergoing restructuring. Dennis, 1993, p. 139.

with the inflow of private capital 'unleash a growth dynamic that will enable [East Germans] to solve the majority of tasks themselves [and] lead to a rapid rise in productivity.'⁹²⁶ Others expected the East to become an 'innovative region of development,' the 'most modern, American part of Germany,' thanks to the prospect of avoiding the burdensome regulations of Rhineland capitalism.

The confidence expressed in these predictions took root within a neo-liberal consensus that had developed within the West German establishment since the mid-1970s, if not before, and which now interpreted the end of Communism as confirmation of the superiority of market economics. The neo-liberal recipe for the East was a familiar one. Opening up to the world market would enable inflows of urgently needed technology, capital, and managerial expertise. Liberalisation and currency stabilisation (in this case through the extension of the Deutschmark to the East) would set the stage for market-driven growth. Distortions of the market would be overcome through the privatisation of nationalised industries and the abolition of subsidies on consumer goods. Although bankruptcies of existing 'dinosaurs' would undoubtedly ensue, market reform would facilitate the growth of small enterprises and a *Mittelstand* that would absorb much of the workforce shed from the state sector. Allowing market forces to punish the weak, though destructive in the short-run, would in the longer term release creative spirits by disencumbering those industries with stronger potential. Their advantage would lie with the size of the East German market itself (which for most western investors was a crucial factor) and its proximity to Europe's largest markets. In addition, the whip of unemployment and lure of improving wages would increase labour discipline.

The 'J curve' wilts

These prognoses, we now know, were rosy in the extreme. Although most of the economists mentioned above predicted a recession, none foresaw the full-blown slump that was to come. Already by January 1990 industrial output had fallen by almost five per cent, due largely to labour shortages resulting from mass emigration, declining labour discipline, and the disintegration of managerial morale and administrative structures during the months of popular uprising. But from the middle of that year the descent became precipitous (see Figure 1).⁹²⁷ From June to July alone industrial output plunged by 35 per cent and then proceeded to fall further. By 1992 industrial production had reached rock bottom, at 31 per cent of its 1989 level, while the total number of hours worked in the economy per year had plummeted from nine billion to well under half that figure.⁹²⁸ The figure of 31 per cent can be usefully compared to the lowest point reached by German industrial production during the Great Depression – 59 per cent of the 1928 level.

926 Barthel, 1990, p. 173.

927 Data from Kehrer, 2000.

928 Bideleux, 1996, p. 229.

It could be argued that the faster the fall in GDP the swifter would be its subsequent rise; that dead wood, cleared promptly, allows space for new growth. Certainly the slump of 1989–91 was followed by recovery. Remarkable productivity gains were made, partly due to the closure of relatively inefficient industries, partly also to technology transfer from the West. In some sectors such as automobiles, steel, and printing, productivity has overtaken the West German level. Some areas are displaying the potential to become, as promised, ‘innovative regions of development’. The region triangulated by Zwickau, Leipzig and Dresden has seen major investments in the automobile and microelectronics industries. The Berlin-Brandenburg region is now host to cutting-edge industries such as bio-technology and micro-electronics. Several other areas, particularly along the former border with West Germany, have attracted significant industrial investment. Eastern Germany has not, as some have claimed, slipped from ‘Second’ to ‘Third World’ rank.⁹²⁹

Nonetheless, and despite benefitting from net transfers of some DM 150 billion per year the eastern economy’s overall performance has been far from impressive. In terms of GDP the 1990s was a lost decade, as shown in figure one. If a ‘J-curve’ occurred it was one with a steep declivity succeeded by a relatively shallow acclivity, with growth faltering from 1995. It is true that, initially, the share of GDP taken by *total* investment was high, per capita investment *in plant and equipment* was not. It rose from 50 per cent of the West German level in 1991 to 93 per cent in 1993 but declined thereafter.⁹³⁰

As a result, GDP per capita in the East relative to the West has fallen back to its level of the mid-1990s – 57 per cent. Output per employee has stagnated at a similar figure; somewhat less if reckoned per working hour.⁹³¹ Since 1997 GDP growth has averaged only 1.2 per cent compared with 2.2 per cent in the West. Other economic indicators remain weak. Bankruptcies, for example, now exceed new starts for the first time since unification; the rate is almost three times that of the West.⁹³² This *widening* of the East-West gap, according to the economist Hans-Werner Sinn, shows no sign of abating, and if western Germany, which provides 40 per cent of the turnover of eastern business, continues in its doldrums this will only make matters worse.⁹³³ Nor has growth been impressive when compared to neighbouring economies in Central Europe. According to United Nations data, as depicted in Figure 1, eastern German GDP growth in the 1990s was less than the average for its five closest ex-Communist neighbours.⁹³⁴ ##INSERT FIGURE##

929 For example, James Petras, 1992.

930 Boltho *et al.*, 1997, p. 253; Priewe, 1993, p. 103; Kehrer, 2000, p. 138.

931 Ragnitz, 1999.

932 *Wirtschaftswoche*, 26.06.01.

933 H-W Sinn, *Leipziger Volkszeitung*, 28.1.02.

934 United Nations, 2001, p. 162. The 2001 figure is from the I.f.W., Halle.

If there is one core reason for this sorry picture it is the precipitous decline of manufacturing industry in the 1990–2 period. East Germany converted almost overnight from one of the most to one of the least industrialised regions of Europe. The proportion of industrial workers in the West is now over twice that in the East. Company towns have become ghost towns, while rural regions such as Mecklenburg-Vorpommern suffer chronic stagnation. In essence the collapse has followed the predictably unforgiving logic of capitalist crisis. One firm after another went to the wall, shedding labour. The consequent reduction in demand for industrial inputs and consumer goods, in turn, drove even relatively viable firms into bankruptcy. However, a number of features stand out. One is the sheer scale of industrial implosion. With the destruction of distribution and supply chains between eastern firms the existing economic fabric disintegrated to such a degree that future industrial revival is endangered. Many parts saw whole complexes of industries close down, with skilled workers emigrating to the West. In such regions there is often little cause to invest anew.

Where new enterprise has arisen, it tends to be smaller and less productive than in western Germany.⁹³⁵ Average capital stock per employee is only 76 per cent, and per capita investment in equipment only 88 per cent of the western figure.⁹³⁶ Eastern firms tend to produce in lines where price is decisive and, because their products are rarely well-known abroad, have difficulty in breaking into wider markets – most sell mainly within their region.⁹³⁷ Small firms using less advanced equipment to produce for relatively small markets can benefit less from scale economies. Reaching western German levels of productivity will not be easy.

A second distinctive feature is that industrial decline affected the high tech sector disproportionately. This development was already charted in 1991, in a prescient study by Ulrich Voskamp and Volker Wittke. They observed that R&D departments and other high value-added service occupations connected to manufacturing were being shut down wholesale. Observing a ‘traditionalisation’ of the product spectrum they showed that a greater proportion of manufacturing industry would be pitted in direct competition with producers in low-wage countries. These processes, they warned, threatened to turn Germany into a ‘dual’ economy, with firms in the East compelling workers to work longer hours for lower wages, and dependent on the West for technical know-how and resources. The only eastern companies that might profit from this situation would be those that could find a western partner willing to invest and transfer technology. But these, they found, were thin on the ground.⁹³⁸

Since 1991 the relevant data has borne out Voskamp and Wittke’s predictions. The region’s research infrastructure has been shattered. By 1997, the number of employees in R&D had fallen to 17

935 Exploration of the causal links between productivity and corporation size may be found in Harrison, 1994.

936 Ragnitz, 1999; Priewe, 2001.

937 Ragnitz, 1999, p. 180.

938 Voskamp and Wittke, 1991, p. 355.

per cent of the 1989 level. No wonder then, that whereas in 1988 the GDR registered 34 per cent as many patents as the FRG, now the equivalent figure for the region is only 9 per cent.⁹³⁹

Voskamp and Wittke's prediction of traditionalisation has also been borne out. The dominant industries in the East are construction and associated industries (such as quarrying) as well as light manufacturing (such as food processing).⁹⁴⁰ Such industries tend to sell a greater proportion of their output on local and regional markets, which helps to explain why total exports from the region in 1997 were only half the level of 1989 and why the export quota of its manufacturing sector was the same in 1997 as it had been under the 'trade averse' regime of Erich Honecker.⁹⁴¹

This is an economic structure that reflects a high level of dependence on state transfers, with its disproportionately large construction sector (engaged in building and repairing public infrastructure and business locations at the taxpayer's expense) and its light manufacturing sector that thrives upon local consumer demand which, again, is paid for in no small measure by the state. Even today, every third Mark spent in the East comes from the West.⁹⁴² Germany may yet avoid becoming a 'dual' economy, with a relatively prosperous West and an eastern 'Mezzogiorno' dependent on continual fiscal transfers. But for the time being, as the Federal Government itself concedes, 'self-sustaining growth in [the East] has not yet been achieved'.⁹⁴³ In conclusion, with a small manufacturing base and little prospect of a rapid growth of service industries, the prospect of the East overtaking the West, has begun to appear as unrealistic as similar promises announced by East German apparatchiks in an earlier epoch.

Dinosaurs and the Meteor: Orthodox Explanations

If the severity of the deindustrialisation of 1990–2 forms a major part of any explanation of the East's structural weaknesses and enduring malaise, accounting for the severity of that slump is crucial. Explanations commonly begin with the 'legacy of Communism'. As detailed in chapters six to eight, East Germany partook of the general crisis of the Soviet system. By 1989 the East German *Kombinate* were in a decrepit condition: plant and equipment were old, and used outdated technologies, markets were small, production runs were short, and the quality of many goods and services was poor. Average output per employee had fallen to between a third and half the West German level.

939 Kehler, 2000, pp. 150–2.

940 Kehler, 2000, 140–1. Equivalent figures for gross capital formation are 25 per cent for the industries Chemicals, Engineering, Electronics and Automobiles, as against 50 per cent in the West.

941 Kehler, 2000, pp. 136, 155.

942 *Wirtschaftswoche*, 2.10.00.

943 Kehler, 2000, p. 160.

Secondly, the crisis sweeping the Soviet Bloc in the late eighties, accompanied by the liberalisation of trade and capital flows, led swiftly to the collapse of Comecon's trading and payments systems. By the end of 1990 all intra-Comecon trade was conducted in hard currencies and at world market prices. By 1991 it had slumped to less than half its previous level. For the *Kombinate* this meant the loss of secure, 'soft' markets for manufactures and of cheap raw materials and energy imports from the USSR. Given that the Comecon area made up around 70 per cent of East Germany's trade, the consequences were serious indeed.

A third factor was the GDR's hasty adoption of the Deutschmark. As discussed in the previous chapter, company directors and politicians on both sides of the Wall had envisaged a long period in which East Germany would exist as a sovereign polity, its enterprises increasingly integrated into the economy of the FRG but still settling their major costs in East Marks.

Such calculations did not reckon with the consequences of the 1989 revolution. Mass emigration and the uprush of a culture of popular protest could not be called off at will. By early 1990 East Germans were vociferously demanding a rapid improvement in living standards through introduction of the Deutschmark. A March 1990 survey, for example, showed 91 per cent of easterners in favour of rapid currency union.⁹⁴⁴ The prospect of a renewed exodus and political instability pushed Helmut Kohl's hand. Currency union was introduced hastily, in July, as a concession aimed at stifling protest and stemming the flow migrants. 'Kohl and his advisers,' as Charles Maier puts it, 'were rushing to stay ahead of an economic and political momentum that might otherwise overwhelm their own control of events.'⁹⁴⁵

Something similar can be said of the calibration of currency exchange. The original plan for 'German Economic Monetary and Social Union' (GEMSU) had envisaged an exchange rate of 1 DM per 2 East Marks. Although this rate flattered the value of the East Mark, it was seen as insulting by East Germans. For many, unification was desired not least because it promised to revalue *their labour-time* according to West German standards, and this was certainly implied in the CDU's own election propaganda. A furious coda to the previous winter's revolution resulted. Newspapers published letters and editorials favouring exchange at parity. Trade unions, including the West German IG Metall and the FDGB (now seeking to profile itself as an autonomous body) organised demonstrations in support of parity that were attended by around a million souls. Fearing that it would, in the words of a leading CDU politician, 'face a storm of protest that would sweep it away,' the government in Bonn was forced to capitulate and, against the wishes of the Bundesbank, granted a 1:1 exchange rate for wages, pensions, grants, and for savings up to DM 4,000.⁹⁴⁶

944 Dennis, 1993, p. 64.

945 Maier, 1997, p. 234.

946 Christ and Neubauer, 1995, p. 81.

For Helmut Kohl's short-term popularity in the East, and for the narrow goal of currency stabilisation, GEMSU was a success. For East German capital, however, it was destructive. The strength and stability of the Deutschmark was not an innate property but was, in Rudolf Hickel's words, 'the expression in currency-political terms of an economy that had, through crises, become hardened for international competition.'⁹⁴⁷ Its transfer to an economy that had for decades been shielded from 'hard' competition was therefore devastating. With its adoption the East German market was, at a stroke, opened to unfettered competition from the EU and to relatively unprotected competition, at least in manufactures, from elsewhere. The *Kombinate* saw their domestic market evaporate as consumers – including themselves – switched to Western goods.

To have had any chance of expanding their presence on domestic and world markets the more viable *Kombinate* required a devaluation of their major inputs through currency depreciation. In fact the opposite occurred. The terms of GEMSU represented a 300–400 per cent revaluation of the (East) Mark, i.e. a massive *appreciation* of the currency circulating in the East. Profitability could be maintained only if costs were reduced accordingly, but this was impossible, for the prices of raw materials and components from the domestic economy, as well as overheads, were themselves subject to the currency revaluation. Wages were affected similarly, and began to rise thanks to the imminent prospect of a unified labour market. The gap between West and East German nominal wages – which had stood at approximately 2:5 in 1989 – began to close rapidly in 1990, and grew a further 77 per cent in the 1991–5 period.⁹⁴⁸

Another cost that weighed particularly heavily on the *Kombinate* was borrowing. Under the old regime average company debt had been high, approximately double that of West German firms, but with stable and low interest rates such levels were sustainable.⁹⁴⁹ The transition to the market, however, saw a sudden collapse of demand, forcing companies to increase borrowing simply in order to meet existing commitments. Yet at the same time interest rates soared from 3 per cent to 9 per cent. The *Kombinate* were badly squeezed; their net indebtedness rose from 18 per cent before GEMSU to 37 per cent thereafter.⁹⁵⁰

Currency union, in any form, would have forced extensive restructuring upon the *Kombinate* in the face of intense competition on world markets, but its timing and terms dealt them a knockout blow. Given the prevalence of the notion that the 'legacy of Communism' was to blame

947 Hickel, 1993, p. 109.

948 Priewe, 2001, p. 20. Real wages, however, did not rise by the degree usually assumed. For many workers the rise did little more than lessen the fall in income that came with redundancy, for the size of unemployment benefit is related to final salary. For a significant minority a part of any rise was simply compensation for the demotion in salary grade that occurred due to East German qualifications being undervalued in the new regime; Hitchens *et al.*, 1993, pp. 58, 62. It should also be borne in mind that nominal wages did not correlate with living standards, given that prices were rising rapidly too. As a percentage of average western rent, that in the East soared from 29 per cent in June 1990 to 62 per cent in July 1992; Pilz and Ortwein, 1992.

949 Cf. Stephan, 1999, p. 62.

950 Dennis, 1993, p. 71.

for their impending collapse, it should be noted that the timing and terms of GEMSU are perceived as destructive not only by radicals but also by establishment figures in Germany. Karl-Otto Pöhl, for example, described GEMSU as a 'disaster,' and as 'a shock that no economy could survive'.⁹⁵¹ The head of a western commercial bank described it in more graphic terms: 'It is as if somebody lying seriously ill in intensive care was placed in front of a window where the temperature was below zero.'⁹⁵²

The economist Horst Siebert has provided a suggestive metaphor for this process. Giving a twist to the tediously common analogy between the *Kombinate* and dinosaurs, he compares GEMSU to the meteor that led to that genus's extinction.⁹⁵³ The *Kombinate* were relatively unproductive, inflexible, and ill-equipped to adapt to a market environment, but even the opportunity for evolutionary adaptation to the new circumstances was obliterated by the brutal force of the meteor hit. If recovery has proven difficult, that is to a significant extent due to the 'shock' nature of the transition.

The meteor's trajectory

Orthodox explanations generally wrap up at this point. They account for the slump in terms of the relative inefficiency of the East German economy, a problem which was exposed when trade restrictions were broken down and compounded by the terms of currency union, the evaporation of Comecon markets for East German goods, and rising wages in the East.

Explanations of this sort contain large grains of truth. However, they are more remarkable for what they overlook, assume and omit. Take, for example, the question of wages. Although many economists focus obsessively on the costs to industry of rising wages, they were only one cost among many. The wage bill rarely if ever exceeded 25 per cent of an East German firm's total costs. And even if eastern workers had been supine, the hopes of industrialists and liberal economists that low wages would give eastern business a decisive advantage were never realistic. If a company were looking for a low-wage site to invest why should it consider, say, the East German town of Schwedt when wages in Szczecin, a few miles down river, were bound to be lower? And if this was apparent a decade ago, how much more so today, with low-wage economies joining the EU and further undermining this supposed competitive advantage of eastern Germany? Conversely, companies such as Airbus, for which the wage bill is less decisive, are more likely to site new investments in high-wage Hamburg than in Halle.

951 Sinn and Sinn, 1994, p. 51; Kehrer, 2000, p. 117.

952 *Der Spiegel*, 16/1991, p. 127.

953 Siebert, 1992, p. 29.

It is no surprise, then, that a recent study by the German Institute of Economic Research showed that sectors with *more rapid wage equalisation* have created a disproportionate number of new jobs.⁹⁵⁴

The case against orthodox explanations, however, rests less on such empirical questions than on their tendency to ignore dynamics of regional polarisation. That capital accumulation is a radically *uneven* process tends to be taken for granted, and yet is fundamental to understanding the crisis in question. There are two relevant aspects to this phenomenon. The first concerns the inherently uneven nature of competition. Given that capitals are connected together within a framework in which the behaviour of each is governed by comparison with that of others, innovation in one centre threatens the viability of extant forms of production elsewhere. Certain advantages tend to accrue to market leaders. They gain crucial early experience in product development and distribution, and thereby attain a leading edge in know-how, and 'known-about' – especially in branded products. Pioneers of successful innovations are likely to attract above average profits that, in a virtuous circle, provide the surplus necessary for further innovation and enable economies of scale to be reaped.⁹⁵⁵ Well-established firms reinforce their positions, for example through advertising or tied contracts; their experience helps them to keep ahead.⁹⁵⁶

This unevenness is manifested in economic geography. Market competition will, depending upon circumstances, reward both spatial expansion and agglomeration, but in a highly uneven manner. The mechanisms by which unevenness is intensified are commonly described using a simple concept: vicious and virtuous circles. Paul Krugman, for instance, summarises a core insight of economic geography, that investment decisions tend to vary with the size of the local or regional market, in these terms:

the division of labor is limited by the extent of the market, but the extent of the market is in turn affected by the division of labor. The circularity of this relationship means that countries may experience self-reinforcing industrialization (or failure to industrialize), and that regions may experience self-reinforcing agglomeration.⁹⁵⁷

Similarly, Gunnar Myrdal based his understanding of the tendencies towards regional polarisation on the concept of 'cumulative circular causation'. Following the hypothesis 'that in the normal case the changes in other factors which are called forth as reactions by a change in one factor always tend to move the system in the same direction as the first change,' he reasons that 'the play of the forces in the market normally tends to increase, rather than to decrease, the inequalities between regions.'⁹⁵⁸ For example, if one industry locates in one area, multiplier effects expand the local market, encouraging industries to cluster. Economic expansion in that area creates external economies favourable to its continuation. For example capital and skilled workers migrating to the area widen the local market which, in turn, attracts further investment and immigration. Capitals, moreover, generally thrive in areas with developed infrastructure – a trained workforce, infrastructures of

954 *Neues Deutschland*, 10.5.01.

955 Krugman, 1991.

956 Chandler, 1990, p. 599.

957 Krugman, 1995, p. 3.

958 Myrdal, 1957, pp. 32, 26.

law, finance, welfare, education and communications – and large markets. As Jeffrey Sachs has argued, '[i]nnovation shows increasing returns to scale, meaning that regions with advanced technologies are best placed to innovate further.'⁹⁵⁹ New ideas are typically produced from a recombination of existing ideas, so environments rich in ideas are the likely sponsors of chain reactions of innovation. For these reasons firms based in advanced regions benefit from 'advantages of agglomeration,' while those based in declining regions, characterised by the emigration of skilled labour and stagnant markets suffer from an inverse set of disadvantages.⁹⁶⁰

Krugman, Myrdal, and other theorists of regional unevenness do not argue that spatial polarisation is destiny. Tendencies to agglomeration are counteracted by at least two processes. Myrdal calls one of these 'spread effects': the spill-over of expansion from stronger to weaker regions. If the expansionary momentum is strong enough, centres established in this way can themselves become new centres of growth. A second set of counteracting processes are those associated with state expenditure, whether that be on transport and communications, on welfare and the military, or on education, most of which tend to be spread relatively evenly. It also refers to regional policies, which are designed precisely to encourage 'spread'.

Any serious attempt to explain eastern Germany's slump and ensuing difficulties has to get to grips *both* with the intrinsic unevenness of capitalist competition – the elimination of relatively unproductive East German capitals and the conquest of their markets by Western rivals – *and* with the mechanisms of spatial polarisation and equalisation that accompanied and issued from that crisis. Without developing such a case in detail, the following paragraphs summarise the major points.

Deindustrialisation was brutally swift due essentially to the relative inefficiency of much of East German industry upon its exposure to direct competition from the world's most efficient producers, and exacerbated by various downward spirals. A crash programme of closures and downsizing savagely reduced domestic demand, damaging the prospects of all supplier firms regardless of their productivity. Crisis in the East spurred further emigration, with over two million Easterners, disproportionately young and skilled, exiting to the West, to the benefit of its businesses.

As to 'spread effects,' expanding Western firms have indeed invested in the East, yet such operations have commonly taken the form of branch plants, intensively linked to western firms but only weakly integrated into the regional economy. Secondly, the state has 'spread' resources on a vast scale, in the form of investment subsidies, infrastructural spending and welfare. By the mid-1990s over half of *private* investment in East Germany consisted of *public* subsidies.⁹⁶¹ However, the effects on the

959 *The Economist*, 21.6.00, p. 113.

960 Hirschman (1958) notes how agglomeration allows economies to be reaped through 'overcoming the "friction of space"'. It is only relatively recently that space, a central concept in the economic theory of Thünen in the early nineteenth century, has once again received serious consideration in mainstream economics, following its evacuation in Ricardian and neo-classical thought. See Fujita and Thisse, 2002, also Tickell and Peck, 1992.

961 Pickel and Wiesenthal, 1997, p. 117.

East-West 'production gap' have been ambiguous. Transfers to East German consumers, given their preference for western products, have tended to disproportionately benefit Western-based firms. And because firms have an incentive to supply from a single location (in industries characterised by increasing returns to scale) these generally supplied the new eastern market from existing plant rather than risk investing in a region with such an insecure future.⁹⁶² Increased demand in the East, largely due to state transfers, combined with tax cuts to stimulate a 'unification boom' in 1990–2. Many Western firms posted record profits, and some sectors achieved astounding increases in turnover. There were companies such as Siemens which, operating at close to capacity in their West German plants and with skilled labour in short supply, found it rational to build new plant in the East. But more typical were sectors with significant spare capacity in the West, such as the automobile industry. Other industries, such as brewing, simply approached the eastern market as an ideal opportunity to dump surplus stock and knock out eastern rivals.

From this sketch of some of the main processes of agglomeration and spread it is clear that the growth-spreading capacities of even large-scale state intervention have been limited. @scepticism towards the claim that federal government's priority has been to 'modernise' the East is warranted. Indeed, a strong argument can be made that the Kohl regime's essentially *laissez faire* approach to deindustrialisation in the East, contrasting with its mercantilist support for West German business, ensured that the former was exacerbated in the interests of the latter.

Consider, first, the close resemblance of the East German experience to the 'shock therapy' measures advocated elsewhere in Eastern Europe. A number of *substantive* differences notwithstanding, the East German experience, as Andreas Pickel has argued, demonstrates a striking similarity to 'shock' strategies in its *procedural* nature, notably the emphasis upon rapid, comprehensive and simultaneous reform.⁹⁶³ Within the space of three months, completely new monetary, economic, fiscal and legal frameworks were erected, under the supervision, increasingly, of external elites. After this sort of 'shock' a reversion to a gradualist approach was inconceivable.

Arguably, these reforms accorded with the desire for unification of a majority of East Germans. But it would be naïve to perceive them as the imprint of the general will. Timing and strategy speak volumes. It is widely recognised that a 'shock' agenda is best implemented in a period of political 'honeymoon'. The World Bank, for example, has put the case in the following terms:

When new economic teams or governments have come to power and the policies of the previous team or government have been discredited [...] [o]ften the strongest political asset of the new teams and governments is people's dissatisfaction with previous policies and their willingness to try something fresh (the honeymoon effect).⁹⁶⁴

962 Cf. Brakman and Garretsen for insightful discussion.

963 Pickel and Wiesenthal, 1997.

964 Dasgupta, 1998, p. 37.

The 'honeymoon effect' means that swingeing reforms that might otherwise provoke resistance may be implemented quickly, at a time when a large proportion of the population greets the new order with sympathy. There can be little doubt that policymakers in Bonn and Berlin understood the advantages of launching wholesale reforms during such a period.

In this light it appears that the rapidity of political transformation, though justified with reference to popular opinion in the East and its 'return' to its supposedly natural condition of liberal democracy, was bound up with the perceived need for a swift imposition of authority, by the FRG, over its crisis-ridden and unpredictable neighbour. Similarly, to explain 'shock marketisation' simply in terms of easterners' aspirations or the 'natural' subordination of a less efficient economy is inadequate. The 'chill wind' of economic competition was not automatic or neutral. It involved the *political management of economic crisis*, largely in the interests of West German business. This applies even to the 'meteor' of currency union. Far from being a natural event charting a pre-determined arc, it was the result of deliberate decisions taken, above all, in Bonn. And although these were in large part determined by the twin threats of protest and exodus, the response to these challenges dovetailed with a neoliberal strategic commitment to prioritise financial discipline on capital in general, and to enhance the strength of West German business even where its interests conflicted with those of industries in the East. As Elmar Altvater has argued, Western firms were to profit from the terms of GEMSU, for 'stable enterprises are harder to take over than bankrupt ones'.⁹⁶⁵ This, surely, is what lies behind the nonchalance with which policymakers, including architects of GEMSU itself, are willing to concede their awareness that its timing and terms would cause the wholesale bankruptcy of otherwise viable *Kombinate*.⁹⁶⁶ More importantly, it is consistent with subsequent economic policy in the East, above all the dismantling and restructuring of the *Kombinate* under the aegis of the *Treuhandanstalt*.

Laisser monopoliser

... These details exemplify a more general point, namely that German unification, although widely presented as an opportunity for economic decentralisation, in fact presented a rich opportunity for centralisation. This was already obvious in 1990, when the FRG's largest corporation swallowed the eastern German *Kombinat Schienenfahrzeugbau*. 'Was it not a priceless irony,' Michael Schneider observed at the time:

that it was the bosses of that West German super-conglomerate named Messerschmidt-Bölkow-Blohm-AEG-Dornier-Daimler-Benz, which has now purchased a monopoly of the production and distribution of railway carriages for the entire

965 Gransow and Jarausch, 1991, p. 206.

966 Cf. e.g. Köhler, 1994, p. 200.

Although that particular mouthful of a conglomerate later divided once again, one part of it went on to gobble up Chrysler during a year of merger and acquisition frenzy, which saw German companies involved in over 2,000 major takeovers worth over DM 400 billion. This was a crowning achievement of a decade that had witnessed the most massive concentration of capital in German history, leaving Germany with a commanding thirty-one of the EU's top hundred companies.

The purchase of Schienenfahrzeugbau is not simply of interest as an example of how the takeover of the 'centralised' East German economy by the 'liberal' FRG accelerated processes of capital concentration and centralisation. As indicated in the quote by Michael Schneider, it also touches on the question of monopoly. With the acquisition of Schienenfahrzeugbau, 'AEG-etc.' became the biggest producer of railway carriages in the world, with a near monopoly position in Central and Eastern Europe. The Federal Cartel Agency (FCA), gallant defender of market freedom, faced the choice of putting a spanner in the works or letting the deal go ahead. It is telling that a crucial argument that helped to swing the FCA in favour of the latter, 'laissez faire,' decision was that of the 'national interest'. Let my German company take over this choice portion of East German industry, insisted Heinz Dürr, the director of AEG, or else 'the foreigners will come'!⁹⁶⁸

The Schienenfahrzeugbau acquisition was not an isolated case. In the media, the concentration of market power is significantly greater in eastern Germany than in the West. In the newspaper sector, a study for the Federal Ministry of the Interior found that 'a highly concentrated market without competition has arisen in eastern Germany.'⁹⁶⁹ In the energy industry similar trends to monopolisation and even cartelisation could be observed. A paper by the Hamburg World Economy Archive points to another such: 'In the case of the energy industries (electricity and gas), the West German companies attempted to secure an anti-competitive strategy. Unfortunately they were largely successful in this'.⁹⁷⁰ Since then, regional monopolisation has been furthered through the 'elephants' marriage' of two West German-based energy giants, VEBA and VIAG.⁹⁷¹ In the oil distribution sector in Saxony Anhalt, a West German company was barred by a (probably bribed) regional government from building a pipeline in order to ensure a regional monopoly for Elf's Leuna refinery.⁹⁷² This latter case does not simply exemplify the subordination of competition to monopoly but also reminds us that one of the major selling points of many eastern firms – including those in the energy, media and retail sectors – was

967 Schneider, 1990, p. 172.

968 *Der Spiegel*, 12/1990, p. 140

969 Von Toerne and Weber, 1995, p. 277. After that study was published, concentration proceeded further, with a rapid diminution in the number of companies in the newspaper and publishing industries.

970 Ebermann and Trampert, 1993, p. 179. See also Müller, 1999.

971 *Junge Welt*, 4.9.99.

972 Dininio, 1999, p. 97; *Die Zeit*, 24/2001.

precisely their regional monopoly status. Where West German market leaders acquired such firms a pan-German monopoly or oligopoly situation was approached. Yet the THA and the FCA usually gave these acquisitions the green light.⁹⁷³ To my knowledge the FCA only intervened once to prevent a monopoly arising from a West-East acquisition.

Poles apart

If, as outlined above, the eastern German economy has failed to shake off its dependence upon state transfers, and if the THA contributed to further devaluing East German capital in the interests of West German buyers, it becomes difficult to see the process of unification as the bailing out of a troubled country by a generous relative. An alternative would be to conceptualise the East German economy as a national capital in receivership, with the state playing the role of receiver, supervising the asset-stripping of the East. As Andreas Pickel has put it, 'given the dismal record of economic transformation and the dominant role of the state, one might be tempted to speak polemically of a peculiar German model of "state-led underdevelopment"'.⁹⁷⁴ Unification can be viewed from this angle as the annexation of values and, more importantly, claims to future values in the eastern economy by the West German state, which promptly pumped them into the hands of (largely western) property owners and institutions.

This operation took several forms. First, former owners of property nationalised by the East German state, or their scions, 're-gained' property worth tens of billions of *Deutschmarks*. Previous owners of non-returnable property received reparations. Meanwhile, unification ignited an explosion in German property prices – by over one hundred per cent in many areas in a matter of months – which netted gigantic windfalls for property owners.

Second, THA policies helped to ensure that new owners gained land and plant at bargain basement prices. Purchases and investments in the East, moreover, received massive subsidies from the state. The beneficiaries were primarily Western businesses. These bought 94 per cent of THA-owned assets; its final balance sheet showed that 80 per cent landed in West German hands, with only 6 per cent going to East Germans.⁹⁷⁵ That a fictional representation of the THA, in Günther Grass's novel *Ein weites Feld*, is named the 'Handover Agency' says it all.

Third, the East German market was opened up to western firms which, in the 'unification boom' detailed above, experienced a profits surge. Demand was funded largely by the state, whose

973 Roesler, 1992, p. 217.

974 Pickel and Wiesenthal, 1997, p. 116.

975 *Wirtschaftswoche*, 19.8.94, p. 18.

mushrooming debt – combined with the ‘unification boom’ – sent interest rates soaring, mainly to the benefit of West German banks and financial institutions. This was in addition to the DM 48 billion netted by these bodies, together with the Bundesbank, as a result of currency union.⁹⁷⁶

Underneath the chatter of German nationalism, the pickings of unification were taken by the few. It ‘is chiefly in West Germany that the greatest gainers of unification are to be found,’ as Peter Christ and Ralf Neubauer wrote at the time, ‘and it is above all the relatively small group of owners of monetary and productive assets who are creaming off the profits of unification’.⁹⁷⁷ Along with the transfer of ownership went a transfer of authority. Despite the widely trumpeted ideology of meritocracy at the time of unification – that every East German should begin at ‘year zero’ with equal opportunities, as Egon Bahr put it⁹⁷⁸ – the process was managed primarily by westerners, as indicated by the statistics given in the previous chapter.

For most East Germans any perceived experience of ‘colonisation’ has at least been significantly ameliorated by rising living standards. Average wages, at 60 per cent of the western level in 1991, have risen to 91 per cent (although if the longer working week, and sundries such as holiday pay, are included, the figure is only 70–75 per cent). The rise, however, has occurred much more slowly than the ‘parity within five years’ that was promised at the time of unification, and although some well-organised workforces have achieved parity, elsewhere wages can be 30 per cent or more below the level for comparable work in western Germany.⁹⁷⁹ Alongside longer hours, conditions in the East are generally inferior and ‘management by stress’ is rife.

But if there is one word that belies the promise, explicitly stated in the GEMSU treaty of 18.5.90, that the ‘social market’ would ensure that ‘the living and working condition of the East German population will be constantly improved,’ it is unemployment.⁹⁸⁰ Between 1989 and mid-1991 some 5.1 million East German workers, more than half the workforce, were laid off.⁹⁸¹ By 1994 the industrial workforce had fallen to 0.6 million from its 1989 level of 3.2 million, while the total workforce is predicted to have halved by the middle of this century, according to the Institute of Demographic Studies at Bielefeld University.⁹⁸² Despite economic growth from 1992 onwards, the official rate of unemployment has stuck at over 17 per cent, almost two thirds of whom are women. This figure, however, is misleading, as it ignores those who have withdrawn from the workforce (notably married women and early retirees), the 300,000 East Germans who commute to the West, not to mention the many hundreds of thousands on short-time work and on government training schemes. If these groups were included the rate would be closer to 40 per cent.

976 Sinn und Sinn, 1994, p. 71–4.

977 Christ and Neubauer, 1991, p. 239.

978 *Berliner Zeitung*, 13.5.91, p. 3.

979 www.diw.de, editorial, 3/2001.

980 Glaessner, 1992.

981 Buechtemann and Schupp, 1992, p. 99.

The social consequences of mass unemployment cannot be adequately addressed in the confined space of this chapter, but a summary would include the plummeting of the birth rate by 60 per cent between 1989 and 1992, mass poverty, and rising crime. Net emigration has risen steadily since 1996 and seems set to continue unabated, with one third of easterners aged 18–29 seeking to move West.⁹⁸³ And, in spite of the swelling ranks of the homeless in some regions, depopulation has prompted the wholesale demolition of housing in numerous towns (such as Schwedt), as well as of rural services such as village schools and kindergartens. With economic prospects dim, living standards relatively poor, social inequality at record levels and corruption rife, easterners can be forgiven for asking how much has changed since unification.

Inferior conditions for eastern workers have not, however, led to improvements for their colleagues in the West. Quite the opposite. In the West, firms began to recruit East German incomers and turn away the local unemployed. In the East, low pay has enabled the norm of nationwide equal wages within branches, a guiding principle of the German trade union movement, to be undermined. High unemployment has encouraged employers in the East to experiment with practices that trade unions in the West would block. As Lowell Turner has noted, some firms have ‘quite explicitly used eastern Germany as a greenfield from which to influence work organization at [their] western plants.’⁹⁸⁴ National collective bargaining agreements have been ripped up in the East, resulting in a greater regional differentiation of industrial relations. Meanwhile, the subsidisation of investment and consumption in the East has resulted in higher taxation and a huge public debt. Rising debt has benefited the wealthy, as indicated above, but has also been used to justify austerity measures, including the axing of public services, East and West. Taxation, meanwhile, falls ever more heavily, both absolutely and relative to capital, on workers, West and East. The share of their income going towards the special taxes for unification in 1991–2 was, for the top 5 per cent of the population, 43 per cent lower than for the bottom 75 per cent, a discrepancy which subsequently widened.⁹⁸⁵ Under the current red-green government the percentage of wages and salaries in total German GDP has plunged to a record low while company profits and incomes from property hit a record high.⁹⁸⁶ Growing income inequality of this sort, moreover, was already occurring under the CDU government of the 1980s. As Colin Randlesome puts it:

As far as business interests were concerned, one of the most positive aspects of Helmut Kohl’s Chancellorship up to 1987 was probably the redistribution of wealth it achieved. Taking into consideration taxes, social security contributions and the rate of inflation, the incomes of employees actually fell in the period from 1982 to 1985 by DM 17,5 billion [...]. Over the same period the incomes of employers rose by DM 100 billion.⁹⁸⁷

If the period from 1980 to 2000 is considered, we find that real wages have risen on average by 30 per cent while incomes from capital have risen by 230 per cent.⁹⁸⁸ In this light, the deindustrialisation of the East

982 *Jungle World*, 25.4.01.

983 Thierse, 2001, pp. 23, 76; *The Economist*, 12.5.01.

984 Turner, 1998, p. 80.

985 Hickel and Priewe, 1994, p. 169.

986 *Linksruck*, 13.12.00; Steinitz, 2001, p. 151.

987 Randlesome, 1994, p. 5.

988 Bayer and Nolle, 2001, p. 216.

and the state-directed transfer of wealth and property to the already well-heeled may be seen as one moment within a general process of class polarisation in Germany, if not the world, as a whole.

Of cream and spilt milk

Shortly after German unification the influential SPD political theorist Martin Gorholt claimed that 'the bankruptcy of the command economy has led to an ideological and real revitalisation of capitalism'.⁹⁸⁹ In Germany this claim is beginning to seem risible. Certainly, the GDR was in severe and terminal crisis in 1989, but its problems were thereupon conjoined with those that were afflicting the FRG: slow growth, rising unemployment, social polarisation, and miserly public policy. Unification occurred during the most protracted world recession of the post-war epoch (1990–2), and was closely followed by the most severe recession in the FRG's history (1992–4). The euphoria quickly turned sour as much heralded investment plans were postponed, while other West German companies reoriented their strategy towards shutting down potential rivals in the East, assisted by the THA with its medicine of 'deindustrialisation through privatisation'.⁹⁹⁰

[what of the elites: businessmen, bankers &c.?] For this class, the 'development' of the East has been highly profitable. Thanks to the timing and terms of currency union, along with the THA's strategy of 'shock' privatisation, East German industry was sharply devalued, enabling Western buyers to acquire actual and potential rivals for a song. The unification process, as Quentin Peel described a decade after it began, 'has been more a process of colonisation than unification, more like a hostile takeover than a merger of equals'.⁹⁹¹

On occasion, the securing of additional profit for Western business involved corruption, but for the most part was legitimately, in the form of corporate welfare or simply the establishment of conditions that allowed firms to gain assets cheaply. As such it demonstrated liberal capitalism's extraordinary capacity of skimming value from every possible source into the wallets of the rich on a scale that makes actual cases of corruption seem child's play. The state-guided transfer of value from the German taxpayer and Eastern property to (largely West German) capitalists and proprietors should not therefore be taken as a sign of corruption, conspiracy, or plutocracy, although elements of all three may have been present. It attests rather to the normal mercantilism of the capitalist state, its concern to assist those capitals most linked to it become more powerful European and global players. If, to return to a metaphor from the introduction, the 1989 revolution enabled eastern Germany to be hoisted onto the 'capitalist autobahn,' this was not the autobahn of lore – free flowing and without speed limit. A closer analogy is with the 'real existing'

989 Gorholt and Kunz, 1991, p. 242.

990 Roesler, 1993b, p. 52.

991 *Financial Times*, 4.11.99.

autobahns of Germany today: a chance for some BMWs in the fast lane to move into top gear; traffic jams for the rest.

Conclusion

Any account of the demise of the GDR or of the STEs in general must attempt to explain the nature of the relationship between these and the world economy and inter-state system. To what extent and by what means did their relationships to these wider systems enter into the constitution of the STEs themselves? One influential position is that, although *sui generis* social formations, fundamentally different from capitalism, the STEs were powerfully shaped by an orientation to and competition with Western capitals and states. For Charles Maier, 'the Communist world [...] had set its ideological validation first on the competition with the West, and then on at least providing some of the goods Westerners enjoyed'.⁹⁹² In Rudolf Bahro's view, 'the purpose' of STE policymakers 'was to accumulate more [...] than the capitalists whom [they were] seeking to overtake.' In this, the 'measure of accumulation' required was 'not determined within the system itself, but rather in so-called economic competition with capitalism.'⁹⁹³ In Jeffrey Kopstein's important study of the political economy of East German decline a similar formulation can be found. For him, Communist rulers were systematically oriented towards 'capitalist modernity.' Capitalism was the 'yardstick' against which they measured themselves. In setting up capitalist achievements as their defining goal, 'rather than defining a "yardstick" of its own, communism was doomed to live in capitalism's shadow.'⁹⁹⁴ Its history, Kopstein continues, was

not so much a genuine search for a unique path to a new socialist modernity as it was a series of responses to crises brought on by its failure to escape from capitalist modernity. These responses, however, cast as they were in terms of competing with the West, merely intensified the daily experience of second-rate citizenship in a capitalist world.

Kopstein's book is structured around analyses of the strategic choices that were made by GDR policymakers in these crisis situations, each of which, although rational in the short term, truncated their ability to confront challenges further down the line. For example, major concessions on pay and welfare were made in response to the 1953 uprising, severely denting central planners' ability to hold down pay in later years. Their inability to break workers' shop-floor strength was, in the 1960s, to pose an obstacle to the success of the 'NES' reforms. The failure of NES, in turn, limited Honecker's room for manoeuvre in the 1970s, helping to ensure that increased contact with the world market led to a growing and ultimately unsustainable debt burden. '[E]ven if Honecker and company had wanted to "reform" the economy,' Kopstein, concludes, 'they would not have had an easy time of it. They were hemmed in by the choices both they and their predecessors had made at critical junctures in their state's history.'⁹⁹⁵

If Kopstein portrays the end of East Germany as the culmination of insoluble long-term contradictions, as manifested in a long series of policy mistakes in response to crises that were ultimately rooted in the 'failure to escape from capitalist modernity,' in Charles Maier's classic history of East Germany's

992 Maier, 1997, p. 104.

993 Bahro, 1981, pp. 133–4.

994 Kopstein, 1997, pp. 196–7.

‘dissolution’ one period is singled out as a watershed. ‘Growth rates from the 1950s through the 1960s and into the 1970s,’ Maier reminds his readers, although from a lower baseline, ‘were comparable with those in the West’.⁹⁹⁶ But these qualified successes could not continue without substantial restructuring. For Maier, the NES offered the prospect of an alternative trajectory. That these reforms were allowed to stall from the mid-1960s, before their termination at the decade’s close, was the SED’s pivotal mistake. Furthergoing market reform, he suggests, could have led to an evolution towards more flexible production from the 1960s, enabling the challenges of the 1970s to be met more effectively. As it was, in this latter decade ‘[c]apitalism and communism together left behind the period of rapid and relatively easy capital accumulation that marked the quarter century after World War II to enter a far more troubled era’ of ‘harder productivity gains’ and ‘harsher distributive struggles’.⁹⁹⁷ Whereas ‘[m]arket flexibility allowed the Western economies to restructure and reorient their priorities, above all to modify their postwar commitment to full employment,’ he continues, the Communist regimes ‘shrank from the logic of reform’.

Maier explains this reluctance to reform in two main ways. The first is based upon the argument that command economies have a natural affinity to the stage of development which characterised the industrialised world from 1930 to 1970, ‘because the preponderant technology of the era seemed to be based on large productive units’ with success conceived in Fordist terms as the ‘mechanized output of standardized products.’⁹⁹⁸ Communism, moreover, subscribed to ‘the romance of coal and steel,’ and heavy industrial goods the production of which are, Maier suggests, peculiarly amenable to central planning but of diminishing importance in modern economies. Central planning, in short, was tailor-made for Fordist structures of accumulation based upon large productive units, heavy industry, intensive labour and mass production. The very success of these structures in organising accumulation in a period in which heavy industries were decisive helped to confirm STE policymakers in their inertia, locking the STEs into a set of structures that had in mid-century been conducive to capital accumulation but which were now becoming fetters on further growth.

Maier’s second angle relates to the international division of labour. The STEs, he writes were structurally organised to resist ‘the encroaching world market’.⁹⁹⁹ In order, however, to benefit from the possibilities of international trade and production, and forced by the imperative of matching the scale, resources and reach of the world’s leading firms, intensive engagement in the world economy was inevitable. The longer resistance lasted, the greater would be the pain of restructuring when integration arrived.

In the 1970s, the economies of the West and Japan proved able to respond to crisis through restructuring, bringing forth new high tech industries, and benefitting from the disciplining effects of unemployment. Japanese and Western businesses succeeded in pioneering new and more flexible methods

995 Kopstein, 1997, p. 104.

996 Maier, 1997, p. 81.

997 Maier, 1997, p. 81.

998 Maier, 1997, p. 97.

999 Maier, 1997, p. 104.

geared to accelerating turnover time and economies of scope.¹⁰⁰⁰ Mass production was phased out in favour of flexible, specialised production. By contrast, the STEs grew yet more rigidly dependent upon the Fordist and full-employment path to which they had grown accustomed. 'Mobilised' societies aiming to overtake western rivals now became 'siege' societies stuck in a vicious circle of decline.

As is apparent from the argument in previous chapters, much of this explanation of the GDR's decline accords with my own. Some points of detail, I would suggest, are marred by exaggeration. That GDR planners were 'romantically' attached to heavy industry is partially contradicted by their overriding obsession, from the 1960s but especially in the 1980s, with electronics, data processing and microelectronics. Secondly, the idea that mass production has been phased out in much of the West, giving way to a new 'flexible' phase based upon smaller units and greater complexity, is one-sided (to put it as generously as possible). Rather, the developing division of labour continues to underwrite tendencies to greater standardisation of mass production, and to simplification of processes at the micro level. And although the average size of workplaces in many industries is decreasing, that of companies in most sectors is nowadays larger than in mid-century, making the GDR's 'giants' appear in retrospect as dwarves.¹⁰⁰¹ Even that prime source of 'flexibility,' sub-contracting, is perceived as attractive by businesses for quite 'Fordist' reasons: as Ankie Hoogvelt writes, it 'combines the advantages of market competition with all the advantages that used to be associated with "administrative fiat"; that is, company control over productive operations for wholly-owned subsidiaries.'¹⁰⁰²

More importantly, this book suggests that it is misleading to see the world capitalist economy as merely one of several 'confining conditions' that acted to constrain the decisions of GDR policymakers, or as an external system that the Communist world joined in the 1970s.¹⁰⁰³ Rather, it draws attention to the systemic factors that persuaded so many state leaders, including Stalin, to opt for étatiste methods in the first third of the twentieth century. Military competition in a multi-polar order was one of these. The impact of world economic crisis and de-globalisation upon domestic policymaking was another. 'Catch-up' industrialisation by backward economies was a third. Greater power and status for the military, in turn, tended to bolster étatiste, coercive, and in some parts of the world even para-military methods of economic coordination and political domination, not only in the STEs but across the world in the inter-war period.¹⁰⁰⁴

The STE form itself, as outlined in chapters one and two, is best conceived as a fruit of this epoch of global capitalism. Decisive in its genesis was the manner in which economic and military competition from capitalist states and enterprises impacted upon and constrained the strategies available to the Soviet Communist Party in its response to the dilemmas that arose as a consequence of the isolation of the 1917

1000 These included small-batch production, just-in-time inventories, automation and the decentralisation of management. For an argument that places flexible specialisation as the key difference between the economies of East and West, see Verdery, 1996.

1001 In the vehicle industry, for example, the largest East German players employed under one tenth as many workers as General Motors; the gap was larger still if measured by turnover.

1002 Hoogvelt, 1997, p. 127.

1003 See for example, Kopstein, 1997; Maier, 1997, p. 104.

revolution. Emerging in an underdeveloped region, during an étatiste phase of the world economy and in geopolitical competition with advanced capitalist powers, the STE was born as a distinct model of capitalism, involving an extreme degree of fusion between state and capital. State and society were 'economised' – re-engineered to enable, facilitate and force rapid capital accumulation. The goal of production was defined by competition with external actors, even if the terms in which this was defined – 'class struggle' against capitalism – were drawn from the communist lexicon. The STEs were thus not simply 'oriented to' capitalism as an external system. In the process of re-orienting social goals from those of 1917 to those of the five-year plans, that external system, including the goals and values that it encourages and depends upon, had become thoroughly internalised.

It therefore makes little sense, for example, to depict 'the development of a large military-industrial sector' in the USSR or East Germany as 'the product of political choice and *not* of systemic necessity.'¹⁰⁰⁵ Nor, if one broadens the perspective to state strategies in the global economy in general, is it appropriate to perceive 'national' and state-led development strategies as 'freely chosen' by elites in contrast to neo-liberal structures that are determined by global market forces.¹⁰⁰⁶ Both state-capitalist and neo-liberal trajectories are determined in historically specific conjunctures involving market and geopolitical competition on an uneven global playing field, as well as by strategic decisions of elites and of social movements.

The interplay of these structural constraints and strategic decisions was examined for the case of East Germany in chapters three to nine. In chapter three it was argued that, although the Cold War was not an inevitable consequence of systemic antagonism (there are too many instances of alliances between Communist and non-Communist states for that thesis to carry any weight), neither was it the consequence of misunderstandings or mistakes. Rather, the USSR was, unlike Britain and France, sufficiently powerful to resist US pressure and yet, in line with its backward, war-weakened and capital-hungry condition, advanced strategies in Germany and elsewhere that clashed with those of the USA. On the one hand, the command economy had enabled Russia to become the last of the great powers (excepting China) to industrialise. On the other, as an economically backward 'challenger' to the prevailing world order its enterprises were poorly equipped to compete with those of its geopolitical and economic rivals. Moscow's responses to Western moves invariably reflected this weaker hand – the Warsaw Pact to Nato, the CMEA to the OEEC, GDR to FRG. In contrast to the USA's 'rise to globalism,' Soviet hegemony was geographically delimited and based largely upon military might. As a backward imperial power geared to dirigiste economic policymaking, its informal empire depended upon the imposition on territories occupied of war-economic structures similar to its own. The relatively autonomous sub-system within the world economy that resulted excluded direct competition with the global hegemon to an even greater degree than had

1004 This, coupled with the violent responses of ruling classes throughout Europe to the revolutionary movements of the 1910s and 1920s, accounts for the fact that by the late 1930s authoritarian regimes – sixteen of them, including Stalin's – were in power throughout eastern and southern Europe. Mann, 1996, p. 228.

1005 Sapir, 1997, pp. 226–7.

1006 As is commonly assumed. See e.g. Strange, 1996, pp. 74–5.

those of preceding 'Hobbesian challengers' such as Napoleon's Continental system, Nazi Germany's *Mitteleuropa*, or Japan's 'co-prosperity sphere.'¹⁰⁰⁷

Neither command-economic structures nor the relative autarky of its bloc in themselves condemned the USSR to second class status in perpetuity. Had the global economy remained a 'muddy field,' to return to a metaphor from chapter three, the Soviet 'tractor' could well have outperformed the US 'Cadillac.' Alternatively, STE structures could be reformed. Other state-capitalist economies, notably Japan and Germany, that had once posed geopolitical threats to countries of the liberal core later succeeded both in growing rapidly and joining the 'Lockean heartland club' themselves. Critically, these economies were cemented into the US-led global economy during the great postwar boom. As trade and capital flows grew, the 'muddiness' of the previous phase of capitalism declined. For Japan and Germany, in terms of relative economic growth, virtuous circles ensued. Over subsequent decades most of the rest of the world was to be drawn in to what was becoming a relatively liberal (if not integrated) world market, in a process that came to be known as globalisation.

By the 1960s it was already apparent to policymakers in Eastern Europe that these developments at the level of the world economy necessitated domestic reform. The pioneer in several respects was the GDR, notably with regard to market reforms, and also Comecon integration. That the NES initiative was terminated and only minor structural reforms were carried out thereafter doubtless tells us something, at a general level, of habit and inertia and of the commitment of SED leaders to the principle of planning. It also testifies to the peculiar difficulties of reforming structures of accumulation that were bound together in such tight-knit interdependence under central command. As discussed in chapter four, these conditions tended to encourage a politicisation of economic restructuring, bringing the danger of clashes between Party leaders reverberating throughout the apparatuses of political and social control, sowing confusion among loyalists and encouraging dissenters to mobilise behind alternative strategies. The dilemma that confronted STE reformers was accurately summarised by Chris Harman in 1970:

If reforms, in collaboration with foreign capital or otherwise, are not carried through [...], the chronic crisis of the Russian and East European economies can only grow worse [...] Yet it is also increasingly clear that the bureaucracy is unable to carry through reforms on anything like a successful basis without a split of the proportions that characterized Hungary in 1956 and Czechoslovakia in early 1968. Such a split could only be the prelude to an immense crisis throughout the USSR and Eastern Europe, in which the extra-bureaucratic classes would mobilize behind their own demands.'¹⁰⁰⁸

In addition to the problems posed by bureaucratic inertia, the difficulties of reforming centralised structures and risk of mass movements, a further and crucial obstacle to reform, in so far as it involved closer involvement with the world market, was the fact that that sphere – the globalisation process itself – was dominated by the USSR's geopolitical rivals. Indeed, the world market in its revived post-war form, involving the integration of Western Europe and its economic coordination with the USA, had occurred in tandem with the defining of the USSR as beyond the pale, a rival to be 'contained.' In the 1970s and 1980s policymakers in East Berlin and Moscow could observe that various state capitalist societies – notably

¹⁰⁰⁷ Thompson, 2000.

¹⁰⁰⁸ In Callinicos, 1991, p. 19.

South Korea, Taiwan and the People's Republic of China – were successfully integrating into the world market and even catching up with the countries of the 'Lockean core.' All were doing so, however, on the basis of lower wages than prevailed in the Soviet bloc, and none were enemies of the USA. These, moreover, were the exceptions. Many others, notably in Latin America, gave a starker reminder of the punitive possibilities that integration could bring.

These contradictions were felt especially acutely in the GDR. Given its starting point as an already-industrialised economy, STE structures had brought relatively little benefit compared to some of its more agricultural neighbours. A weaker economy, damaged by reparations and locked into a relatively backward region, it was pitted competitively against its Western twin, one of the world's fastest-growing economies. Whereas FRG industries benefited from access to the largest markets and most advanced technology, the GDR's were tied through bilateral plan coordination to the smaller, more backward economies of Comecon; its manufactured exports were destined for the most part to the relatively 'soft' markets of its allies.

On the one hand, as the most advanced of the Comecon economies, the GDR had particular reason to open up to the world market as a means of spurring productivity growth. On the other, given Bonn's claim to its territory, the SED regime was existentially dependent upon 'socialist' structures and the Soviet military. As described in chapters six and seven, East Germany's rulers stumbled towards closer ties with the West and Japan, leading them into an uncomfortable situation of 'double dependency.' An ever-growing reliance upon Western imports, loans and transfers clashed with the regime's loyalty to Moscow, and was reflected in profound tensions over its *Westpolitik* in the 1980s.

As the crisis of the STEs gave way to the reforms and revolutions of 1989, one of the most striking, and widely commented, phenomena of the period was the readiness with which Communist ruling classes abandoned commitments to state property, economic planning and one-party rule. As discussed in chapter eight, marketisation and democratic reform did not present a head-on challenge to the *nomenklatura*. Rather, they represented a means of refounding its basic commitment to capital accumulation on a new basis and of rescuing the regime, minus a few sacrificial lambs, from an enraged public.

What followed, the full insertion of the GDR and eastern Europe into the world market, was perceived by neo-liberals as representing the triumph of market forces. Having failed to modernise Eastern Europe, Communism was giving way to a social order that could. As Daniel Gros and Alfred Steinherr wrote in the mid-1990s:

Like Western Europe after World War II, Eastern European countries now have the historic opportunity to create *ex nova* optimal economic and social institutions and thereby free their latent energies.

They will, furthermore, be able to 'leapfrog those Western countries whose oligarchic and inward-looking politico-institutional framework has not had the chance to be dynamited away.'¹⁰⁰⁹

1009 Gros and Steinherr, 1995, p. 86.

In fact, the record for most of the former Eastern Europe STEs has been low growth and a further primitivisation of their export structure. For the six westernmost examples real GDP has only recently returned to the 1989 level, as indicated in figure one of chapter nine. Even this modest achievement far exceeds those of most of their former allies to the east, such as Latvia, Romania or Moldova, not to mention the central Asian republics of the former USSR. In this light the claim that their failure to catch up with the West had been due solely or even primarily to their resistance to market reform looks less convincing than ever. The theorisation of the transition in terms of the growth prospects enabled by the cracking open of rigid étatiste structures and the exposure of business to the invigorating discipline of the world market is also shown to be inadequate. Free trade does not bring advantage to all. It tends to benefit those with technological advantage and market power and punishes the weak. The post-1979 age of neo-liberal globalisation has witnessed lower growth than the previous epoch, and a shift in the distribution of economic power between firms and institutions based in the West, Japan (plus a handful of NICs) and those of the rest of the world. In terms of income the world is now far more polarised both within and between societies than it was even one generation ago. Indeed, it may be the case that causal links exist between globalisation and polarisation. Some recent research in spatial economics and economic geography suggests that conditions of globalisation (free trade, unrestricted technology transfer, and comparative homogeneity in legal and cultural contexts), will tend to encourage agglomeration.¹⁰¹⁰ If such circumstances pertain simultaneously with relatively low global growth, as in recent decades, spread effects – the spill-over expansion of the most profitable and cutting-edge industries (including services) from stronger to weaker regions – are likely to be relatively weak. In this respect, the economy of contemporary eastern Germany reflects in miniature this world-economic conjuncture: highly uneven and polarised, with islands of prosperity amidst lakes of stagnation.

¹⁰¹⁰ Fujita and Thisse, 2002; Krugman, 1991, 1995; see also Myrdal, 1957.

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